

*Our mission is  
Protect and Build*



*Our value is Caring,  
Professional and Trustworthy*



*Our spirit is  
We are family*



*Tainan champion, Asia leader  
One of the world's great companies*



**CTBC BANK**

**CTBC Bank Co., Ltd.**

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Tel: (02) 3327-7777

Website: <http://www.ctbcbank.com>

**Spokesman**

Name: Daniel Wu

Position: Senior Executive Vice President

Tel: (02) 3327-7777

Email address: [daniel.ik.wu@ctbcbank.com](mailto:daniel.ik.wu@ctbcbank.com)

**Acting Spokesman**

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Position: Executive Vice President

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**Stock Transfer agency**

Agency: Corporate Trust Operation and Service Department, CTBC Bank Co., Ltd.

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**The Notarization CPA of Last Few Years**

Name: Charles Chen, Jeff Chen

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Tel: (02) 8101-6666

Website: <http://www.kpmg.com.tw>

**Credit Rating Institution**

Titles: Taiwan Ratings Co., Ltd.

Address: 49F, No. 7, Sec. 5, Xinyi Road, Taipei City 110, Taiwan (R.O.C.)

Tel: (02) 8722-5800

Website: <http://www.taiwanratings.com/tw/>

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## I. Letter to Shareholders

Dear Shareholders,

In 2013, CTBC Bank Co., Ltd. (hereinafter CTBC Bank) continued to deliver excellent performance, breaking records in various areas of business. It was ranked by international professional agencies as Best Bank in Taiwan in *Euromoney*, *FinanceAsia*, *Global Finance*, and *The Asset* magazines. In the area of corporate banking, 2013 marked the seventh year that CTBC Bank was awarded by *FinanceAsia* as the Best Foreign Exchange Bank in Taiwan. It was also ranked by *Global Finance*, *Global Trade Review*, and *The Asset* as Best Trade Finance Bank in Taiwan. As to retail banking, it was selected by *The Asian Banker* as Best Retail Bank in Taiwan for the seventh time. In the area of wealth management, CTBC Bank has received numerous recognitions in Taiwan, including *The Asset*, which has selected CTBC Bank four times as Best Wealth Management Bank in Taiwan, as well as *Global View Magazine* and *Wealth Magazine*. As for financial performance, this year, CTBC Bank enjoyed an industry-leading NT\$60.8 billion in consolidated net revenue, NT\$18.7 billion in consolidated pre-tax income, NT\$18.8 billion in consolidated after-tax income, and 13% consolidated pre-tax ROE. Relative to 2012, consolidated net revenue grew 11%, consolidated pre-tax income declined by 14%, and the budget achieving rate before taxes was 54%. The consolidated pre-tax income declined primarily due to the impact such factors as one-time item loan loss provisions. If the impact of one-time items is disregarded, consolidated pre-tax income grew by 10% and the budget achieving rate before taxes was 115%.

Looking back at overall performance in 2013, in the area of profitability, corporate banking earnings were derived mainly from our outstanding sales performance of capital market products, while other corporate banking loans maintained a momentum of steady growth. Wealth management of retail banking, including fee income from mutual fund and insurance sales, maintained high rates of growth. Net revenue from interest was NT\$28.3 billion and net fee income stood at NT\$24.5 billion. As to product innovation, CTBC Bank introduced Formosa Bonds, a market innovation, and successfully employed them and foreign currency-denominated bonds to assist Taiwanese businesses in raising capital locally, helping internationalize Taiwan's capital market, while demonstrating CTBC Bank's initiative to leverage cross-strait's banking business opportunities. In terms of changes made to our organization, to realize CTBC Bank's goal of strategies to develop our overseas business, in addition to our existent dedicated offices for mainland China and Southeast Asia markets, CTBC Bank set up Japan Business Division in 2012 to develop our business related to Japanese markets and to the signing of an MOU. In addition, on 20 December 2013 following passage at CTBC Financial Holding Co., Ltd. (hereinafter CTBC Holding)'s provisional shareholders meeting, CTBC Bank purchased 98.16% of the shares of Japan's Tokyo Star Bank, Ltd. On 26 December 2013 following the passage of a resolution by CTBC Bank's Board of Directors, it purchased the remaining 1.84% of shares in the Tokyo Star Bank with the objective of making the Tokyo Star Bank a 100% owned overseas subsidiary of CTBC Bank in

order to employ our numerous overseas locations to accelerate the expansion of business and leverage opportunities to grow in Northeast Asia. This project will take effect upon approval by relevant authorities in both Taiwan and Japan. Furthermore, to develop our global presence and oversea business, CTBC Bank is working with CTBC Holding to implement a re-branding initiative as we strive toward becoming an international financial institution. New signs will say "CTBC Bank".

In the area of risk management, CTBC Bank continued to strictly adhere to its principles of controlling asset quality and BIS ratio. In 2013, it enjoyed excellent asset quality with a consolidated NPL ratio and loan loss coverage ratio of 0.38% and 344.52%, respectively. The consolidated BIS ratio stood at 11.82%, highlighting its capital strength. Credit rating agencies put CTBC Bank on negative watch in 2013 due to the impact of acquiring the Tokyo Star Bank on its capital strength; however, its overall ratings still led the industry.

#### **Latest credit ratings and their effective dates**

Type of Rating	Rating agency	Credit rating level		Credit watch	Other	Effective date
		Long term	Short term			
Global	Moody's	A2	Prime-1	Rating(s) Under Review	-	2014.03.19
	Standard & Poor's	A	A-1	Watch Negative	-	2014.01.24
	Fitch	A	F1	Rating Watch Negative	Viability Rating: a Support Rating: 3	2014.01.09
National	Taiwan Ratings	twAA+	twA-1+	Watch Negative	-	2014.01.24
	Fitch	AA+(twn)	F1+(twn)	Rating Watch Negative	Viability Rating: a Support Rating: 3	2014.01.09

Taking a look at overseas markets, we note gradual improvements in the economies of the US and major European nations. The Eurozone crisis was being reined in and Eurozone economies were making robust recoveries. The US employment scene was gaining momentum and the economy was building up a healthy head of steam. China and Japan, Asia's most important economies, on the other hand, were relatively sluggish. Some emerging economies in Southeast Asia experienced moderate volatility as markets anticipated the tapering of quantitative easing (QE) in the US as well as the impact of political infighting and natural disasters in some countries. Domestically, economic growth was listless as the influence on the local economy of improving economies around the world was not as strong as expected. The slowdown in Taiwan's economic growth was expected to have an adverse impact on the expanding of business for domestic banking industry. In addition, the continued low-interest environment made it difficult to effectively increase the interest rate spread

as well as more rigorous demands by banking authorities increased operational challenges. Financial laws and regulations governing Cross-strait banking, however, continued to be relaxed, the emerging third-party payment market saw expansions, and the Financial Supervisory Commission implemented substantive controls over the price competition which is expected to have a positive influence on the banking industry's business volume and profitability. As such, CTBC Bank's top operational priority is capturing business opportunities, enhancing growth momentum, and maintaining steady profits to maximize shareholder value.

## **Outlook for 2014**

Building on the firm foundation laid in 2013, in 2014, CTBC Bank will continue to stand by our brand spirit "We are family", mission "Protect and Build", and our brand values, "Caring, Professional, Trustworthy" as we take the initiative to provide customers a variety of excellent products and services that have undergone our professional risk management process, to optimize our internal resource allocation, and to maximize business performance. CTBC Bank's three main operational objectives for 2014 are to broaden profit sources on Taiwan's market, to accelerate the growth of overseas markets, and to enhance the supporting functions as explained in detail below.

### **1. Broadening profit sources on Taiwan's market**

#### **(1) Optimizing core business operations on the Taiwan market :**

In the area of wealth management, CTBC Bank will continue to bolster its investment and wealth management planning services, integrating channels, sales teams, and platforms to enhance its relationship with customers and maintain its market lead. CTBC Bank will safeguard its market position in terms of payment businesses by enhancing the performance of its credit card operations and increasing the scale and profits of its unsecured loan operations. CTBC Bank will continue to spur momentum in the growth of its corporate banking and capital market businesses as it continues to grow its core client base to increase its contribution.

#### **(2) Expanding profit sources of emerging businesses :**

In the area of wealth management, CTBC Bank will strive to win High Net Worth Individual customers and their assets as well as to build up cross-generation business to meet the needs of High Net Worth Individual clients for asset transfer. In the area of payment businesses, CTBC Bank will also develop mobile banking and new payment business, establishing new business models for new sources of income. As to corporate banking, CTBC Bank will make an all-out effort to meet the needs of SMEs to, thereby, accelerating the growth of its SME business.

### **2. Accelerating growth of overseas markets**

#### **(1) Augmenting business scale of overseas markets :**

CTBC Bank will continue to increase the number of outlets in Southeast Asia as it enhances cross-border offering between branches as well as focuses on developing local businesses to



bolster the business scale and scope in Southeast Asia. Our object for mainland China is to build on a solid base for future growth, seek inorganic growth opportunities or form partnerships in order to become the leader of Taiwan-invested banks in mainland China. In North America, CTBC Bank is focused on asset growth opportunities of small businesses and corporate banking operations, on enhancing its ability to attract deposits, and on adjusting its structure of assets and liabilities to deal with climbing interest rates.

(2) Connecting cross-border opportunities to boost synergy :

In the area of commercial banking operations, CTBC enhanced the cross-border and cross-selling businesses of its corporate banking products, including cross-border trade services, and strengthened overseas cash management offerings. In the area of capital markets, CTBC Bank continued to develop treasury and structured finance operations in mainland China and Southeast Asia and established proprietary trading centers in Hong Kong and Singapore to build up its overseas capital market product capabilities. In addition, it employed a modified private-banking business model, promoted SME operations in Southeast Asia, and experimented community banking branch model in overseas subsidiaries to spur growth of its overseas operations.

3. Enhancing supporting functions :

- (1) To better focus on risk management while expanding operations, CTBC Bank will continue to bolster communication platforms between business units and risk management personnel to enhance their cooperation mechanism.
- (2) In order to further improve upon the quality of customer services and business growth support, CTBC Bank will continue to enhance the efficiency and effectiveness of its information and technology units.

Looking ahead, CTBC Bank will continue to pursue both quality risk management and prudent asset growth. In Taiwan, it will use its core businesses as its primary engine to enhance relations with wealth management clients, while enhancing and optimizing operations related to customer services. Furthermore, it will advance emerging businesses to develop profit sources over the long term. As to our strategies for overseas markets, our Hong Kong and Singapore Branches will be the hubs to continue developing our RMB business and the Greater China Market, as well as to leverage economic growth opportunities in the Southeast Asian region, to carry out our plans to expand in Asia and realize our goal of becoming the top Taiwan-invested bank in China. CTBC Bank will continue to stand by its principle of sound management as it builds a rock-solid foundation for sustained operations embedded in diverse profit sources and quality risk management and sustain success in maximizing value for the shareholders.

Chairman 

## II. Company Profile

### A. Company Overview

(1) Date of Establishment: March 14, 1966

(2) History of the Bank

Formerly known as China Securities Investment Corp., CTBC Bank Co. Ltd. was established in 1966 and has been affiliated with CTBC Financial Holding Co., Ltd. since May 17, 2002. Operations include deposits, loans, guarantees, foreign exchange, offshore banking units (OBU), trusts, credit cards, cash cards, securities, bonds, proprietary futures, derivatives, factoring, safe deposit boxes, electronic banking services, and the national lottery.

To maximize operational scope, CTBC Bank merged with Grand Commercial Bank in December 2003, acquired the Fengshan Credit Cooperative in July 2004 and was successful in its bid to purchase Enterprise Bank of Hualien in May 2007. To make our team more effective, CTBC formally merged with the Chinatrust Bills Finance Corporation on April 26, 2008. CTBC Holding passed a proposal in a provisional shareholder meeting in December 20, 2013 for acquiring 98.16% of The Tokyo Star Bank's shares. On December 26, 2013, the CTBC Board of Directors further passed a resolution to purchase the remaining 1.84% of shares in The Tokyo Star Bank at the same price per shares. The Tokyo Star Bank will become a foreign subsidiary held 100% of CTBC Bank, to the advantage of many of the accelerated expansion of overseas bases in Northeast Asia business development opportunities. These acquisitions will go into effect upon approval by both relevant authorities. At the end of 2013, CTBC Bank had a total of 147 branches in Taiwan and 68 oversea outlets and a total of 5,184 ATMs located across the island. CTBC Bank boasts NT\$1.73 trillion in deposits and NT\$2.16 trillion in total assets — the most of any privately-operated bank in Taiwan.

(3) Awards

#### Domestic Awards

Award	Agency
2013 Wealth Management Survey : Best Overall Banking Image Best Wealth Management Bank Best Recommended Wealth Management Bank	<i>Global Views Magazine</i>
Credit Card Survey : Best Image Most Used	
Best Customer Service Quality	
Best in Transportation and Travel	



<b>Award</b>	<b>Agency</b>
Healthy Brand Survey : First Place in General Financial and Wealth Management	<i>Common Health Magazine</i>
Top Digital Service Benchmark Enterprise in Banking Category	<i>Business Next Magazine</i>
2013 Young Generation Brand Survey : First Place in Credit Card Category for Favorite Brand Actually Owned	<i>30 Magazine</i>
Trusted Brand : Gold Winner in Banking and Credit Card Issuing Bank	<i>Reader's Digest</i>
6th Best Brand Awards : Best Brand in Banking Category	<i>Business Today</i>
Silver Medal for 2013 Sports Activists Award—Sponsor Category	<i>Sports Administration, Ministry of Education</i>
Happy Enterprise 2013 Award	<i>Department of Labor, Taipei City Government</i>
First Place in Top 100 Enterprise Facebook Fan Page in Financial Services Category	<i>Institute for Information Industry</i>
Favorite Brands of the Elite Survey : Best Local Bank Best Bank Image Best Bank Service Best Bank Products Best Wealth Management	<i>Wealth Magazine</i>
2013 Taiwan Best Bank Services and Wealth Management Award: Most Trusted Wealth Management	<i>Excellence Magazine</i>
CG6008 Advanced Corporate Governance Assessment	<i>Taiwan Corporate Governance Association</i>

#### International Awards

<b>Awards</b>	<b>Agency</b>
#200 of Top 1000 World Banks 2013	<i>The Banker</i>
Best Bank in Taiwan Best Private Bank in Taiwan	<i>Euromoney</i>
Best Overall Domestic Cash Management Service in Taiwan : # 1 in Large corporate Best Overall Cross-Border Cash Management Service in Taiwan : # 1 in Large corporate	<i>Asiamoney</i>

Awards	Agency
Best Domestic Bank in Taiwan Best Debt House in Taiwan Best Trade Finance Bank in Taiwan Best Cash Management Bank in Taiwan Best Domestic Custodian Bank in Taiwan Derivatives House of the Year, Taiwan Best Wealth Manager, Taiwan Best LBO / Best privatization – Focus Media Holdings US\$1.725 billion take-private financing	<i>The Asset</i>
Best Emerging Market Bank in Taiwan Best Foreign Exchange Bank in Taiwan Best Trade Finance Bank in Taiwan #37 in 50 Safest Emerging Market Banks 2012	<i>Global Finance</i>
Best Bank in Taiwan Best Foreign Exchange Bank in Taiwan Best Leverage Loan – Focus Media’s \$1.73 billion Leveraged Buyout Financing	<i>FinanceAsia</i>
Best Retail Bank in Taiwan Best Cash Management Bank in Taiwan Best Trade Finance Bank in Taiwan Best Wealth Management Bank in Taiwan	<i>The Asian Banker</i>
House of the Year	<i>AsiaRisk</i>
Best Private Bank in Taiwan	<i>Private Banker International</i>
Best Trade Finance Bank in Taiwan	<i>Global Trade Review</i>
Best Asian Bank for Cross-border Custody, Taiwan	<i>AsianInvestor</i>

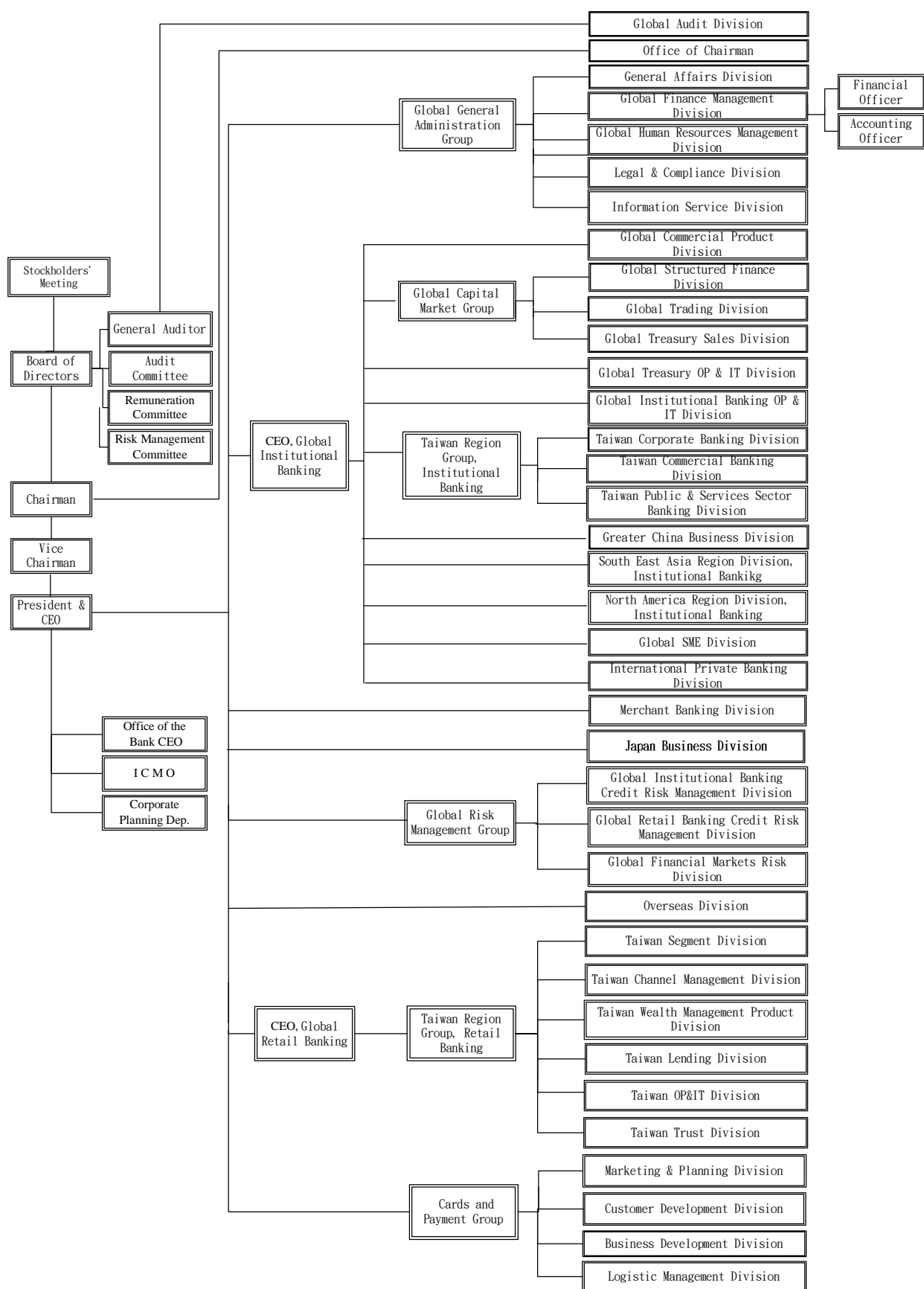
#### (4) Global Layout

Faced with the challenges of financial liberalization and an increasingly globalized marketplace, CTBC Bank took the initiative to increase service locations both in Taiwan and abroad. By the end of 2013, we had a total of 147 branches within Taiwan and 68 outlets (representative offices, branches, and subsidiaries and their branches) overseas. Our many locations in the US, Canada, Japan, India, Indonesia, the Philippines, Thailand, Vietnam, Hong Kong, Singapore, and China make CTBC Bank Taiwan’s most international financial institution.

Looking ahead, CTBC Bank will continue to stand by its brand spirit “We are family”, while we work to protect and build clients’ wealth. We will also uphold our brand values of being "Caring, Professional, and Trustworthy" as we provide customers with a complete array of convenient financial services. CTBC Bank will continue to strive to realize its vision of becoming “Taiwan Champion, Asia leader, and one of the world's great companies” and the most trustworthy bank in the eyes of customers around the world.

## B. The Organization

## 1. CTBC Chart



## 2. Directors, supervisors, and major managers

### (1) Directors and supervisors

April 25, 2014

Title	Name	Date of assignment	Office term	Significant experience	Education
Chairman	Chao-Chin Tung	Dec.26, 2012	3	Director of CTBC Financial Holding Co., Ltd. Director of CTBC Life Insurance Co., Ltd. Chairman of CTBC Capital Corporation Chairman of CTBC Bank (U.S.A.) Chairman of Showa Denko HD TRACE Corp.	M.S. in Material Science, University of Rochester, U.S.A.
Vice Chairman	Thomas K.S.Chen			Director of CTBC Financial Holding Co., Ltd. Chairman of CTBC Investments Co., Ltd. Director of CTBC Life Insurance Co., Ltd. Director of Taipei Financial Center Corporation	Bachelor of Public Finance, National Chengchi University, Taiwan
Director	Wen-Long Yen	Chairman of CTBC Financial Holding Co., Ltd. Chairman of Kainan University Director of United Real Estate Management Co., Ltd.		Department of Economics, Soochow University, Taiwan	
Director	H. Steve Hsieh	Vice Chairman of CTBC Financial Holding Co., Ltd. Chairman of Taiwan Lottery Co., Ltd. Independent Director LITE-ON IT Co., Ltd. Secretary General, Executive Yuan		Ph. D. in Biochemical Nutrition, University of Wisconsin, U.S.A.	
Director	Paul T. C. Liang	CTBC Bank Co., Ltd. (shares), Deputy General Manager President of PT Bank CTBC Indonesia Director of CTBC Life Insurance Co., Ltd.		Department of International Trade, National Chengchi University, Taiwan	
Director	Chun-Te Chiang	Jul.21, 2011		Chairman of ISTRAC Corporation Director of Long Chen Paper Co., Ltd. Independent Director Feng Sheng Technology Co., Ltd. Independent Director Swancor Ind. Co., Ltd. Director Importers and Exporters Association of Taipei	Bachelor of Commerce, University of the Witwatersrand, Johannesburg South Africa
Independent Director	Chung-Yu Wang	Jun.13, 2011		Independent Director of CTBC Financial Holding Co., Ltd. Chairman of Tong Lung Metal Industry Co., Ltd. Chairman of China Steel Co., Ltd. Chairman of Kaohsiung Rapid Transit Corporation	Honorary Ph.D., Chung Yuan Christian University, Taiwan
Independent Director	Wen-Chih Lee			Independent Director of CTBC Financial Holding Co., Ltd. Professor, National Kaohsiung University of Applied Sciences Department of Wealth and Taxation Management Public Service Supervisors of I-Shou University	Ph.D., National Taiwan University Graduate Institute of Commerce, Taiwan
Independent Director	Jie-Haun Lee			Independent Director of CTBC Financial Holding Co., Ltd. Professor, Finance Department, National Chengchi University	Ph. D., in Finance , Louisiana State University, U.S.A.

**Note : All Directors and Supervisors are legal representatives of CTBC Financial Holding Co., Ltd. which owns 7,862,289,717 shares of common stocks and 100% of ownership.**

### 3. Top 10 shareholders or shareholders owning over 10%

Institutional shareholder	Shareholders of major institutional shareholders
CTBC Financial Holding Co., Ltd.	<ol style="list-style-type: none"> <li>1. Nan Shan Life Insurance Co., Ltd.(4.89%)</li> <li>2. Jeffrey L. S. Koo (3.92%)</li> <li>3. Mega International Commercial Bank Co., Ltd. Acting as Custodian for the Investment Account of Morgan Stanley Formosa Holdings (Cayman) Limited (3.24%)</li> <li>4. Yi Kao Investment Co., Ltd.(3.14%)</li> <li>5. Cathay Life Insurance Co., Ltd. (2.54%)</li> <li>6. Government of Singapore--GOS-EFMC (2.11%)</li> <li>7. China Life Insurance Co., Ltd. (1.82%)</li> <li>8. Chan Wei Investment Co., Ltd. (1.76%)</li> <li>9. Bank J. Safra Sarasin Ltd--Singapore Branch – For Clients' account (1.72%)</li> <li>10. Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds (1.56%)</li> </ol>

### 4. Major Managers

Apr 25, 2014

Name	Title	Education	Significant Experience
James Chen	President & CEO, Global Institutional Banking	MBA, The City University of New York, USA	President, Institutional Banking Group of CTBC Bank Co., Ltd.
Su-Kuo Huang	Senior Executive Vice President	MBA, Takushoku University, Japan	EVP of CTBC Bank Co., Ltd.
Jack T.K. Cheng	Senior Executive Vice President	Bachelor of Business Administration, National Taiwan University	EVP of CTBC Bank Co., Ltd.
Larry Hsu	Senior Executive Vice President	Bachelor of Business Administration, National Taiwan University	EVP of CTBC Bank Co., Ltd.
Aaron King	Executive Vice President	Master of Law, Georgetown University, USA	Partner, Lotus International Law Office, Taipei
Frank Shih	Executive Vice President	MBA, University of Texas at Austin, USA	SVP of CTBC Bank Co., Ltd.
Cliff Shen	Executive Vice President	Bachelor of Business Administration, National Cheng kung University	SVP of CTBC Bank Co., Ltd.
Derek Lo	Executive Vice President	MBA, Madonna University, USA	SVP of CTBC Bank Co., Ltd.
Openmind Yeh	Executive Vice President	Bachelor of Economics, Tunghai University	SVP of CTBC Bank Co., Ltd.
Tony Yang	Executive Vice President	MIBA, United States International University, USA	SVP of CTBC Bank Co., Ltd.
David Swei	Executive Vice President	MBA, University of Dallas, USA	SVP of CTBC Bank Co., Ltd.
Mingjohn Lee	Executive Vice President	MBA, New York University, USA	SVP of CTBC Bank Co., Ltd.
H.Y. Chen	Executive Vice President	MBA, Ohio State University, USA	SVP of CTBC Bank Co., Ltd.
C.C. Huang	Executive Vice President	MBA, Indiana University at Bloomington, USA	EVP of ABN AMRO Bank
Alex Chen	Executive Vice President	Bachelor of Economics, Chinese Culture University	SVP of CTBC Bank Co., Ltd.
Matthew Liaw	Executive Vice President	MBA, University of Wisconsin at Madison, USA	SVP of CTBC Bank Co., Ltd.

Name	Title	Education	Significant Experience
Jack CP Wang	Executive Vice President	MBA, The U. of Western Ontario, Canada	Vice President of Citibank
Winston Hsia	Executive Vice President	MBA, University of Pennsylvania, USA	President of ViVa TV
CC Hong	Executive Vice President	International Trade, Chihlee College of Business	SVP of CTBC Bank Co., Ltd.
Amy Yang	Executive Vice President	International Trade, Chihlee College of Business	SVP of CTBC Bank Co., Ltd.
Robert Russell	Executive Vice President	Bachelor of Economics, York University, Canada	Managing Director of Falcon Private Bank
Noor Menai	Executive Vice President	MBA, University of Rochester, USA	CEO of Charles Schwab Bank
YongJin Chen	Executive Vice President	EMBA, National Chengchi University	SVP of CTBC Bank Co., Ltd.
Peter Wei	Executive Vice President	MBA, National Taiwan University	SVP of CTBC Bank Co., Ltd.
James Liao	Executive Vice President	Bachelor of Law, Tunghai University	SVP of CTBC Bank Co., Ltd.
Eric Hsin	Executive Vice President	Executive MS in Finance, The City University of New York, USA	SVP of CTBC Bank Co., Ltd.
Amy HC Lin	Executive Vice President	Bachelor of Banking, National Chengchi University	SVP of CTBC Bank Co., Ltd.
Chung Mao Hsiao	Executive Vice President	Bachelor of Economics, Keio University, Japan	SVP of CTBC Bank Co., Ltd..
Friedman Wang	Senior Vice President	MIBA, National Taiwan University	VP of CTBC Bank Co., Ltd.
Jason Chen	Senior Vice President	Bachelor of Business Administration, Feng Chia University	VP of CTBC Bank Co., Ltd.
Jim Jen	Senior Vice President	MBA, Boston University, USA	Vice President of Citibank
Frank Hsu	Senior Vice President	Master of International Trade , National Chengchi University	VP of CTBC Bank Co., Ltd.
Eric Tsai	Senior Vice President	EMBA, National Chengchi University	VP of CTBC Bank Co., Ltd.
Retinna Sung	Senior Vice President	Bachelor of Law, National Chung Hsing University	VP of CTBC Bank Co., Ltd.
William Chu	Senior Vice President	Bachelor of Marine Transportation, National Chiao Tung University	VP of CTBC Bank Co., Ltd.
Anderson Chen	Senior Vice President	Bachelor of Business Administration, Soochow University	VP of CTBC Bank Co., Ltd.
Yaling Chiu	Senior Vice President	MBA, Minnesota-Twin Cities University, USA	VP of CTBC Bank Co., Ltd.
Evan Chang	Senior Vice President	Bachelor of Accounting, Tunghai University	VP of CTBC Bank Co., Ltd.
Richie Chen	Senior Vice President	Secretarial Science, Tamsui Institute of Business Administration	VP of CTBC Bank Co., Ltd.
Vincent Lee	Senior Vice President	MIBA, National Taiwan University	VP of CTBC Bank Co., Ltd.
Shirley Yang	Senior Vice President	Master in Advertising, Michigan State University, USA	VP of CTBC Bank Co., Ltd.
Sting Yang	Senior Vice President	Bachelor of Accounting, Fu Jen Catholic University	VP of CTBC Bank Co., Ltd.
Christine Ko	Senior Vice President	MBA, Ohio State University, USA	Vice President of Standard Chartered Bank



### III. Business Review

#### A. Business Performance

##### 1. Scope of Business

###### a. Institutional Banking

###### i. Commercial Banking :

Providing customers with comprehensive, specialized, and cross-border financial services, including loans, trade financing, cash management, corporate trust, proxy services and offshore private banking services such as investment and financial planning.

###### ii. Capital Markets :

Providing tailored solutions to meet clients' financial requirements. These services include syndication lending, structured finance, and financial advisory services, etc. Offering wide-ranged foreign exchange and derivative products to fulfill clients' hedging or financing needs, and specializing in structured product design and proprietary trading as well.

###### b. Retail Banking

###### i. Wealth Management :

Providing target customer groups with financial planning, asset allocation planning and advisory services, as well as acquisition of a variety of financial products.

###### ii. Secured Lending :

Providing individuals with a variety of residential mortgage services (including home mortgages, refinancing, installment loans, policy-based loans, and financial planning mortgages) and offering repurchase agreements to targeted corporate customers.

###### c. Payment Services

###### i. Credit Cards :

Providing issuing and acquiring services for credit cards, stored value cards, and debit cards.

###### ii. Unsecured Lending :

Extending various unsecured personal loans (including unsecured term loans and revolving loans)

#### Revenue Breakdown

Unit: NT\$ million

Revenue Source	Amount	%
Institutional Banking	23,639	38.88
Retail Banking (Note2)	32,541	53.52
Other	4,620	7.60
Total	60,800	100.00

Note 1 : Bank consolidated basis

Note 2 : Including payment services business

## **2. Business Discussion**

### **a. Institutional Banking**

We keep our thumb on the pulse of the market to lead the finance industry in creative, specialized financial products and have become an indispensable partner to our customers. Each of our main products has been honored with international awards and has maintained a leading position in the market. The management direction and achievements of our primary products are explained below :

#### **i. Cash Management**

Known for its strong sales and product capabilities, CTBC Bank continues to fight low interest rates by broadening segment scope, determining customers' needs, enlarging its deposit base, and continual innovations. Our market share for total deposits continues to increase each year, currently exceeding 5.37%.

To meet our clients' needs and increase our product lines, CTBC Bank launched the Corporate Card program in 2012. Total transaction volume and amount on corporate card grew quickly in 2013, generating a new source of fee income for CTBC Bank. CTBC Bank is continuing to build on its competitive edge in terms of cross border cash management, expanding services from Taiwan to branches overseas. We formed a regional network of i account plus mechanism and internal swift concept to facilitate cash management by rolling out e-banking and e-trust in Hong Kong, Japan, Vietnam, the US, India, Indonesia, Taiwan, and China in 2013 by greatly leveraging alliance network with overlay model to serve customers in a comprehensive manner.

#### **ii. Trade Finance Business**

CTBC Bank enjoyed excellent performance in the trade finance business in 2013. In Q4, 2013, total assets in trade finance reached US\$4.508 billion with a significant growth rate of 50% over Q4, 2012. Our outstanding trade performance also reflects on factoring business, CTBC Bank remains one of the top three of factoring market share in Taiwan. Furthermore, CTBC Bank has developed many structured trade and commodity finance (STCF) products for the Singapore market, the commodities hub. In 2013, CTBC Bank actively facilitated trade parties from our overseas outlets that had import or export transactions with counterparties in Singapore and integrated trade transactions into our overseas trade platform. CTBC Bank is also skilled in RMB trade operations and experienced in assisting clients manage RMB-related interest rate risk and exchange rate risk. RMB trade settlement volume continues to grow and CTBC Bank will increase its RMB trade related business.

#### **iii. Custody/Corporate Trust Business**

Driven by new services and clients, CTBC Bank asset under custody (AUC) from all segments totaled a record high of NT\$1.2 trillion (US\$40.1 billion) as of the end of 2013, with 17.8% growth over 2012.

In terms of asset under custody, CTBC Bank is still ranked top in several areas, such as fund custodian –non discretionary (providing custody service to local mutual funds),

securities custodian (providing local government/corporate bonds and bills clearing, and security custody to institutional investors and pension funds), FINI/FIDI custodian, and employee benefit trust custodian.

iv. Syndicated Loans

CTBC Bank remains the leading bank in Taiwan syndicated loan market with superior structuring/distribution capabilities and agent bank team to offer clients the best total solution services. CTBC Bank applies its expertise to all types of financing activities. Our structured financing includes LBO/acquisition financing, asset-based financing (AR, aviation, shipping, construction, etc.), and project finance. Most notably, CTBC Bank leads Taiwan banks in aviation finance, having participated or arranged more than a dozen aviation transactions for both domestic and international airlines and international aircraft leasing companies since 2011. The continued surging demand for new aircraft from airline companies presents renewed opportunities for CTBC Bank to be the leading player in Taiwan market in the area of aviation financing.

v. Fixed Income Underwriting

CTBC Bank has taken its first step in raising RMB denominated funds in Taiwan and has set the benchmark in the market for more potential issuers to follow in the near future. CTBC Bank is accredited with bond product innovation both in terms of currency flexibility and diversity of distribution channels and has received good publicity in Taiwan capital market. Our credentials can be further summarized as follows. CTBC Bank was the first Taiwanese bank to join China SOE company in Dim Sum Bond Market. CTBC Bank has strategized itself to be the market leader in both issuing the first CNY-denominated bond or Formosa bond in Taiwan and self-lead manage for bond issuance in Taiwan bond market; brought new innovative and significant product into Taiwan's bond market, namely, the first dual currency bond in Taiwan.

The movement not only set another milestone for Taiwan's bond market, but also added variety to the investment products for institutional investors. Going forward, CTBC Bank will continue to cultivate in Taiwan's bond market to bring in more quality overseas institution issuers to Taiwan's capital market.

vi. Treasury & Derivatives

In 2013, CTBC Bank once again proved to be the number one bank on Taiwan's derivatives market, according to Central Bank statistics. CTBC Bank was also given such awards as the "Best FX Bank", "Best Derivatives House" by various renowned institutions for its achievement in 2013.

Also, with the deregulation of RMB products in Taiwan, CTBC Bank has made every effort to provide and develop relevant FX products to satisfy client's needs as the major RMB product provider among Taiwanese banks. CTBC Bank is the first bank to acquire an onshore RMB derivatives license and the first to conduct onshore RMB derivatives and launch onshore RMB structured investment products after RMB currency clearing

agreement became effective this year. The attempt and effort also contribute to widening the market share gap with our competitors this year.

## **b. Retail Banking**

CTBC Bank remains the pioneer in retail banking product innovation, including wealth management and mortgage services. In addition to enjoying a huge market share, CTBC Bank was also given 94 domestic and international awards in 2013, including ten consecutive years of “Best Private Bank in Taiwan” from *Euromoney* and seven consecutive years of “Best Retail Bank in Taiwan” from *the Asian Banker*.

### **i. Wealth Management**

In 2013, CTBC Bank continued to improve product and services to meet customer needs through numerous customer insight surveys, focus group discussions, and pilot tests. In April 2013, CTBC Bank officially launched a new generation of wealth management services to the market :

To better serve HNWI (High Net Worth Individual) customers, CTBC Bank established a new individual membership level “Private Plus” with AUM threshold of NT\$30 million (approx. US\$1 million), CTBC provides “strong rewards, strong service and strong advisory” to meet customers’ diversified and distinctive needs. Advisory service covers both assets and liabilities, giving customers full balance sheet financial planning. CTBC Bank further established its Concierge Service to assist customers with various daily ticketing needs.

CTBC Bank, as a pioneer in the financial market, launched a brand new three-level Family Membership Program, with minimum thresholds of NT\$60 million, NT\$30 million, and NT\$6 million, respectively. All family member benefits are upgraded with this program, with exclusive benefits, integrated family advisory services include tax planning, cash/liability management, etc.

To better improve existing membership package offering and serve more customers, CTBC Bank lowered the membership qualification threshold from NT\$1 million to NT\$0.5 million.

### **ii. Internet Banking**

CTBC Bank provides a wide range of interactive banking services on the internet. The number of CTBC internet banking users exceeded 2.2 million in 2013. Customer satisfaction score reached 86%, the highest in the industry.

With continuously-improved and award-winning service platform, CTBC internet banking continued to be the most popular on the market.

### **iii. ATM Services**

CTBC Bank has the highest number of ATMs with 5,184. It has created the highest volume in interbank withdrawal transactions, making up for about 31.1% of the market. In addition to traditional ATM services, CTBC ATMs also provide certain branch services, such as internet banking applications: the widespread ATM platform provides an easier process for both new and existing internet banking users.

iv. Mobile Banking

CTBC Bank enjoys the highest market share in mobile banking. CTBC has 0.4 million mobile banking users, with its app being downloaded more than 0.6 million times, the highest in the financial category on Taiwan's APP Store.

CTBC Bank was the first to launch QR code mobile-payment smartphone application which allows customers to make credit card payment via smartphones QR code app.

This has made virtual payments possible in-store.

v. Bancassurance

CTBC Bank provides comprehensive and innovative product platform to customers.

Using the cutting-edge bancassurance system, Insurance Broker System (IBS), CTBC Bank has been the top bancassurance player in premium income and revenue. CTBC Bank continued to have the largest market share in 2013, demonstrating robust growth in market share and maintaining a notable larger share from the 2nd and 3rd ranked banks.

vi. Mortgages

As the biggest non-government-affiliated mortgage provider, CTBC Bank is also a market leader ranking fifth in mortgage balance market share. In spite of economic challenges, local housing market uncertainties, regulatory constraints, and internal compliance, CTBC Bank continues to improve asset quality to increase profitability with segment-specific lending strategies. These strategies include to increase percentage of first-time homebuyers and to provide multiple-channeled and rapid-respond services.

**c. Cards and Payment Banking**

CTBC Cards and payment business maintained the lead position in 2013 :

No.1 in cards in circulation with more than 5.6 million cards (market share of 15.7%)

No.1 in spending volume with more than NT\$326 billion (market share of 17%)

No.1 in revolving outstanding (including unbilled installment balance) with more than NT\$28.8 billion (market share of 15.2%)

No.1 in credit card cash advance amounts with more than NT\$8 billion (market share of 30%)

No.1 in unsecured lending new booking amount with NT\$40 billion (market share of 12.1%)

i. Credit Cards

Since CTBC Bank has been the biggest issuing and acquiring bank on the market, by leveraging customer data, we launched the Relationship SMS to offer benefits which truly meet customers' needs and behavior. Cardholders receive the most useful info and merchants can more effectively draw the best target audience. Since mobile applications are the trend, CTBC Bank also leverages many advantages of the mobile technology to enhance the customer experience. Cardholders can check the nearest and latest benefits when they are shopping. Also, if cardholders would like to apply for additional product, they can use the APP to fill in the form, sign it, and send it. This process significantly reduces the work that customers need to perform.

In July 2013, CTBC Bank cooperated with American Express to launch a new product for customers. This project fully demonstrates our capabilities in channel mobilization,

product management, and end-to-end integration. Almost 400,000 cards have been issued. We expect this product will not only secure existing portfolios, but will also approach more new clients.

## ii. Unsecured Lending

CTBC Bank is the market leader in unsecured lending with the leading position in new booking amounts on the unsecured lending market. In 2013, CTBC Bank surpassed NT\$85 billion in the ending balance on unsecured lending. In spite of various challenges and constraints due to government regulations and internal compliance, CTBC Bank continued to see increases in lending profitability through improvements in asset quality. For customer selection, CTBC Bank targets customers with quality credit histories and pre-defined sub-segments with attributes such as occupations and assets. Moreover, CTBC Bank aims to develop differentiated products and benefits to fulfill different segments. We look forward to continuing to provide innovative customer services.

## B. Employees

YEAR		2013.12.31		2012.12.31	
Number of Employees		10,264		9,900	
Average Age (Years Old)		36.48		36.32	
Average Tenure of Employment (Years)		8.62		8.40	
Education		Employee Count	Percentage	Employee Count	Percentage
	Graduate School or Higher	1,940	18.90%	1,859	18.78%
	University and College	7,453	72.61%	7,123	71.95%
	Senior High School	836	8.15%	881	8.90%
	Below Senior High School	35	0.34%	37	0.37%

## C. Corporate Social Responsibility and Ethical Conduct

Fulfilling our commitment to corporate social responsibility is CTBC Bank's promise to the community we serve.

For many years, CTBC Bank has consistently strived to realize our corporate social responsibility. In corporate governance, corporate commitment, environmental protection, support for the arts, and charitable activities, we hold fast to our brand spirit, i.e., "We are family," our mission to "Protect and Build," and our core values, summed up in the phrase "Caring, Professional, Trustworthy" to provide the utmost care and service to our employees, shareholders, customers, investors, suppliers, and the public at large.

### 1. Philanthropy

In keeping with our philosophy of giving back to the community, CTBC Bank regularly engages in various charity events, such as the annual "Light Up a Life" fundraiser, and encourages our employees to volunteer. Through the end of 2013, we have held an estimated 1,324 volunteer activities in which 46,340 individuals have put in a total of 142,962 volunteer service hours.



## **2. Arts and Culture**

A nation's capacity to appreciate the arts is also a representation of the country's standard of living. To enhance the selection of arts and cultural performances available in Taiwan, CTBC Bank became the first business in Taiwan to construct a performance venue, Novel Hall. Each year, we provide financial support for the venue's operations, while actively sponsoring a variety of cultural performances and activities. In 2013, we sponsored the "Joan Miró : Women, Birds, Stars" and "Monet : Landscapes of Mind" exhibitions as well as the CTBC Classical Music Concert, "A Night of Beethoven" with the Chicago Symphony Orchestra and the "Pili Fantasy World of Puppet Art Exhibition".

## **3. Environmental Protection**

As the issue of climate change has increasingly received attention worldwide, CTBC Bank is doing our part to care for the environment, such as adopting Songzhi Park, encouraging our employees to lead greener lives, and actively participating in environmental activities, such as setting up an energy management systems committee and establishing pertinent environmental policies. In 2012, we became the first financial organization in Taiwan to receive ISO 50001 certification.

## **4. Sustainable Operations and Creating Shareholder Value**

As a leading brand in the financial industry, CTBC Bank is deeply aware of the high levels of attention and expectations placed upon us by all corners of society. The key to a company's survival is not simply a matter of making money. In addition to creating shareholder value through high returns, we are willing to shoulder a larger social responsibility, because we believe a responsible, respectable company is not determined by how much money it makes, but by whether or not it can operate sustainably. We will continue to insist on doing what is right, honorable, and good, while continuing to strive for economic, social, and environmental achievements. CTBC Bank is committed to giving back to our beloved Earth and each person living on it.

## IV. Dividend Policy and Earnings Distribution

### A. Dividend policy and status of execution

#### 1. Dividend policy :

As a subsidiary of the CTBC Financial Holding Co., Ltd., the Bank has the obligation to take care of the fund requirements of the parent company. It will also have to set aside an adequate statutory surplus reserve and maintain an equitable policy for distributing cash dividends.

Dividends and bonuses for common shares shall in priority be in cash and shall be maintained at a stable level every year.

The above policy, however, is to be observed only in principle. The Bank shall take into consideration of business performance and budgeted capital requirements and make necessary adjustments in actual distribution.

Distribution terms, time, and amount: If there are earnings in the financial statement, the Bank shall first reserve funds for taxes, be adjusted according to the principles of financial accounting, and hold back funds for losses, if any. In addition, it shall assign 30% of the earnings as statutory surplus reserve, distribute or reversal special reserve and finally set aside 0.01% to 0.05% of the distributable earnings to employees as bonuses. The way of distributing the remainder and the beginning retained earnings shall be proposed by the Board of Directors and approved by annual general meetings. Before the statutory surplus reserve reaches the amount of the total capital, the distributed cash dividends shall not exceed 15% of the total capital.

If the Bank's statutory surplus reserve has reached the total capital or paragraph 2 of Article 50 of the banking law financial business standards regulated by the authorities and has proposed the statutory surplus reserve according to the company law, it will not be limited by the statutory surplus reserve and the highest cash earning distribution.

The Board of Directors shall decide on the regulations governing the distribution of employee bonus, and the actual distribution ratio within the amount set aside as regulated in the preceding paragraph.

2. The Board has approved the earnings appropriation proposal for Year 2013. It is proposed that total NT\$6,469,878 thousand from retained earnings of Year 2013 will be distributed in stock according to the record shown in the shareholder book on the distribution record date (Record Date). The total common stock dividends are NT\$0.8229 per share in stock.

**B. The influence of dividend allocation this time to the operation performance and earnings per share:** There was no announced financial forecast for the bank in Year 2014; therefore no disclosure of such information is needed.

**C. Information relating to employee bonuses and remuneration to directors and supervisors of the Board :**

1. The percentages or ranges with respect to employee bonuses and director/supervisor remuneration, as set forth in the company's articles of incorporation :  
The employee bonuses allocation range is between 0.01%~0.05%. However, the remuneration to Directors of the Board is not mentioned in the Articles of Incorporation.
2. The basis for estimating the amount of employee bonuses and director/supervisor remuneration, for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period :  
Estimation of the fair value of employee bonuses is recognized as current-period expenses based on the Bank's net income after tax minus an appropriate reserve at the end of the accounting period multiplied by the most appropriate estimate set by the Bank's articles of incorporation. However, if later the actual allocation amount pursuant to a resolution of the Bank's board of directors on behalf of shareholders is different from the estimated number, the difference would be recognized as the profit or loss of the next year.
3. Information on any employee bonus distribution proposal approved by the board of directors:
  - a. Distribution of cash bonuses or stock bonuses to employees, and compensation for directors and supervisors. If there is any discrepancy between such an amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed :
    - i. Cash bonus of employee is NT\$3,235 thousand.
    - ii. The discrepancy: Accrued expense of employee bonus is NT\$3,218 thousand.  
The discrepancy between the actual allocation amount and accrued expense for employee bonus is NT\$17 thousand.
    - iii. Reason: The discrepancy caused is due to the following reasons :
      - The monthly closing number of net deduction of other items in equity which needed to be set aside as special reserve is different from the final one provided to the auditor.
      - The monthly closing number of adjusted net loss in 2012 is different from the final one provided to the auditor.
    - iv. Treatment: The difference would be treated as change in accounting estimates of year 2014.
  - b. The amount of any proposed distribution of employee stock bonuses, and the size of such an amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee bonuses :  
It is not applicable due to no employee bonus distributed in the form of stock.
  - c. The annual report shall assess the effect upon imputed earnings per share of any proposed distribution of employee bonuses and director/supervisor compensation :  
It is not applicable due to the employee bonuses and remuneration to directors and supervisors of the Board has been expensed from January 1, 2008.

4. The actual distribution of employee bonuses and director/supervisor remuneration for year 2012 (with an indication of the number, dollar amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee bonuses and director/supervisor remuneration, additionally the discrepancy, cause, and how it is treated :

	Year 2012			
	Distributed with the resolution from the Annual General Meeting	Recognized expense	Difference (Note)	Explanation
Distribution status :				
A. Employee bonus distributed in the form of cash	NT\$6,440,155	NT\$6,439,957	NT\$198	The difference is due to the following reasons : The monthly closing effective tax rate used to calculate accrued expense is different from the final one provided to the auditor.
B. Employee bonus distributed in the form of stock				
(1) shares	-	-	-	
(2) amount	-	-	-	
(3) stock price	-	-	-	
C. Remuneration to Directors and Supervisors	-	-	-	

Note : The difference amounting to NT\$198 regarded as changes in accounting estimates and recognized as profit or loss of year 2013.

## V. Internal Control Representation

### Internal Control Representation

Financial Supervisory Commission,

On behalf of CTBC Bank Co., Ltd, we hereby certify that the company's internal control system and risk management mechanism for the fiscal year of 2013 have been implemented and audited by the independent internal auditors as to comply with "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries", and the internal audit reports are periodically presented to the company's Board of Directors and the Audit Committee. For the securities business operations, the company has evaluated the effectiveness of related internal control system in accordance with requirements promulgated by "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets".

Except items listed on attachments, we hereby certify that the company complies with all related laws and regulations, and the internal controls are effectively in place. This representation is part of the annual report and publicly disclosed.

We understand that we are legally bound to SEC ordinance #20, 32, 171 & 174.

Sincerely yours,

Chairman



President



Acting General Auditor



Chief Compliance Officer



**CTBC Bank Co., Ltd**

**Internal Control System - Items for Improvement/Improvement Plan**

**(Cut-off Date : 2013.12.31)**

Items for Improvement	Improvement Measures	Scheduled Date of Completion
<p>1. In light of the customer information leakage in CTBC Bank's internet banking business, the internal control system of the bank was considered not properly implemented. It violated Article 45-1, Paragraph 1 of the Banking Act (the Act). A fine of NT\$4 million was imposed according to Article 129, Subparagraph 7 of the Act. &lt;Letter Jin-Guan-Yin-Kong-Zi-10200181601, August 22, 2013&gt;</p>	<p>1. CTBC Bank has implemented additional verification mechanism in sitemap files to ensure the accuracy of website contents. The verification scope also covered the authorization after the generation of new directory address.</p> <p>2. CTBC Bank has applied data masking techniques on customer payment data, reminded customers not to fill in the nickname column with personal information, and conducted information security checks in stages.</p> <p>3. Quarterly penetration tests have been performed by external information security experts.</p>	<p>1. Related mechanism has been implemented by June 2013.</p> <p>2. Personal data protection and security check have been conducted by June 2013.</p> <p>3. Penetration tests have been performed since November 2013.</p>
<p>2. CTBC Bank conducted certain forward foreign exchange transactions with related party, without the concurrence of at least three-quarters majority by presence of at least two-thirds of the Bank's directors. It violated Article 45 of the Financial Holding Company Act (the Act). A fine of NT\$2 million was imposed according to Article 60, Subparagraph 14 of the Act. &lt;Letter Jin-Guan-Yin-Kong-Zi-1026000422 1, November 14, 2013&gt;</p>	<p>1. To enhance the timeliness of the filing and updating of related party information, CTBC Holding and CTBC Bank had amended their "Internal Regulations Governing Non-credit Extension Transactions with Related Parties", respectively.</p> <p>2. Reiteration of related regulations and staff training are reinforced.</p> <p>3. Related-party Transaction Management System (RTMS) and periodical verification mechanism will be enhanced.</p>	<p>1. Internal guidelines were amended in December 2011.</p> <p>2. Related staff training is to be conducted by February 2014.</p> <p>3. Related mechanism is scheduled to be established by June 2014.</p>
<p>3. CTBC Bank entered into a consulting services contract with FIE Technologies Inc. The service fee structure as well as internal process and procedures were not properly evaluated and designed.</p>	<p>CTBC Bank had terminated the contract with FIE Technologies Inc. After a comprehensive screening of all counterparties in existing cross-border consulting contracts, no other de-facto related party was found. To improve the reporting mechanism, the reporting level will be raised to at least chairman if the relationship of counterparty to the Bank is deemed as uncertain.</p>	<p>The rectification plan was submitted to FSC in February 2014. Related enhancement measures were completed by February 2014.</p>



Items for Improvement	Improvement Measures	Scheduled Date of Completion
<p>4. The re-appointment of certain in-house consultants and their dispensation of year-end bonuses were not conducted in accordance with the internal guidelines.</p>	<p>1. CTBC Bank has promulgated the performance evaluation and re-appointment procedures for in-house consultants.</p> <p>2. To enhance the year-end bonuses dispensation process, the bonuses dispensation procedure was amended.</p>	<p>1. Related process had been implemented since 2013.</p> <p>2. Related procedures had been amended by July 2013.</p>
<p>5. CTBC Bank conducted derivative transactions with related party within the scope of Article 45 of the Financial Holding Company Act. However, the proposal of such transactions submitted to the Board was not in depth.</p>	<p>CTBC Bank amended internal guidelines governing overall limit control of non-credit extension derivative transactions with non-bank financial institutions related parties. The guidelines specify the documents needed for the proposal submitted to the Board, and the evidence that the terms of such transactions were not more favorable than those terms offered to other same category customers.</p>	<p>The internal guidelines were amended in July 2013.</p>
<p>6. CTBC Bank should re-examine the establishment of institutional banking regional centers and re-assess the roles and responsibilities of functions within such regional centers.</p>	<p>1. The regional center serves as one of the branch types in CTBC Bank. Due to the separate illustration of organization charts, the roles and responsibilities of functions within such regional center type branches are not well-consolidated.</p> <p>2. To avoid misinterpretation of not-for-business premises and credit extension authority, the branch organization chart containing regional centers are renewed.</p>	<p>The consolidated branch organization chart, including retail banking and institutional banking, was completed in February 2014.</p>

## **VI. Audit Committee's Report of the Financial Statement Of the Last Year.**

### **The Audit Committee's Report**

In accordance with Article 14-4 of Security and Exchange Law and with Article 219 of the Company Act, the undersigned, have duly examined and accepted as correct the financial report (unconsolidated and consolidated) for the year 2013 along with the business report and earnings distribution plan submitted by the Board of Directors of CTBC Bank Co., Ltd.

CTBC Bank Co., Ltd.  
Audit Committee Convener



Wen-Chih Lee  
Taipei, Taiwan, R.O.C.  
April 25, 2014

## VII. Head Office and Domestic Branches

### Domestic Branches

Branch Name	Address	Telephone
Head Office (Banking Department)	1F., No.3, Songshou Rd., Sinyi District, Taipei City 110, Taiwan (R.O.C.)	+886-2-27222002
Jhancian Branch	1F., No.4, Sec. 1, Jhongsiao W. Rd., Zhongheng District, Taipei City 100, Taiwan (R.O.C.)	+886-2-23113598
Huashan Branch	1F., No.55, Sec. 1, Jhongsiao E. Rd., Zhongheng District, Taipei City 100, Taiwan (R.O.C.)	+886-2-23413000
Dongmen Branch	1F., No.213, Sec. 2, Sinyi Rd., Zhongheng District, Taipei City 100, Taiwan (R.O.C.)	+886-2-23958000
Chengjhong Branch	1F., No.83, Sec. 1, Chongcing S. Rd., Zhongheng District, Taipei City 100, Taiwan (R.O.C.)	+886-2-23818740
Daan Branch	1F., No.102, Sec. 2, Roosevelt Rd., Zhongheng District, Taipei City 100, Taiwan (R.O.C.)	+886-2-33651988
Mincyuan west road Branch	1F., No.104-1, Mincyuan W. Rd., Datong District, Taipei City 103, Taiwan (R.O.C.)	+886-2-25572919
Chengde Branch	1F., No.17, Sec. 1, Chengde Rd., Datong District, Taipei City 103, Taiwan (R.O.C.)	+886-2-25562088
Sihu Mini Branch	1F., No.244, Sec. 1, Neihu Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.)	+886-2-27999588
Jhongshan Branch	1F., No.106-2, Sec. 2, Zhongshan N. Rd., Zhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-25235222
Minsheng Branch	1F., No.58, Sec.1, Minsheng E. Rd., Zhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-25641818
East Minsheng Branch	1F., No.51, Sec. 3, Minsheng E. Rd., Zhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-25093656
Dazhi Branch	1F., No.638, Mingshuei Rd., Zhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-85026002
Chengbei Branch	1F., No.218, Songjiang Rd., Zhongshan District, Taipei City 104, Taiwan(R.O.C.)	+886-2-25623789
Nanjing East Road Branch	1F., No.16, Sec. 1, Nanjing E. Rd., Zhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-25232238
Chengdong Branch	1F., No.88, Sec. 2, Nanjing E. Rd., Zhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-25677377
Longjiang Branch	1F., No.65, Sec. 3, Nanjing E. Rd., Zhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-25158811
Chang An Branch	No.26, Fusing N. Rd., Zhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2- 27785881
Jhunglun Branch	1F., No.85, Sec. 4, Bade Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.)	+886-2-27672669
Fujin Branch	1F., No.165, Sec. 5, Minsheng E. Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.)	+886-2-27602766
Sisong Branch	1F., No.161, Sec.5, Nanjing E. Rd., Songshan District, Taipei City 105, Taiwan, (R.O.C.)	+886-2-37655588
Fubei Branch	1F., No.363, Fusing N. Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.)	+886-2-87705566
Dunbei Branch	1F., No.122, Dunhua N. Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.)	+886-2-27133322
Renai Branch	1F., No.341, Sec. 4, Renai Rd., Daan District, Taipei City 106, Taiwan (R.O.C.)	+886-2-27754600
Anhe Branch	1F., No.195, Sec. 2, Anhe Rd., Daan District, Taipei City 106, Taiwan (R.O.C.)	+886-2-27386171
Yanji Branch	1F., No.298, Sec. 4, Jhongsiao E. Rd., Daan District, Taipei City 106, Taiwan (R.O.C.)	+886-2-27716000
Jhongsiao Branch	1F., No.71, Sec. 4, Jhongsiao E. Rd., Daan District, Taipei City 106, Taiwan (R.O.C.)	+886-2-27520310
Sinyi Branch	1F., No.236, Sec. 4, Sinyi Rd., Daan District, Taipei City 106, Taiwan (R.O.C.)	+886-2-27079977
Fusing Branch	1F., No.251, Sec. 1, Dunhua S. Rd., Daan District, Taipei City 106, Taiwan (R.O.C.)	+886-2-27771988
Dunnan Branch	1F., No.68, Sec. 2, Dunhua S. Rd., Daan District, Taipei City 106, Taiwan (R.O.C.)	+886-2-23253616
Gungguan Branch	1F., No.281, Sec. 3, Roosevelt Rd., Daan District, Taipei City 106, Taiwan (R.O.C.)	+886-2-23623377
Wanhua Branch	1F., No.92, Sec. 2, Changsha St., Wanhua District, Taipei City 108, Taiwan (R.O.C.)	+886-2-23898188
Yongji Branch	1F., No.18, Yongji Rd., Sinyi District, Taipei City 110, Taiwan (R.O.C.)	+886-2-27617999
Songshan Branch	1F., No.550, Sec. 5, Jhongsiao E. Rd., Sinyi District, Taipei City 110, Taiwan (R.O.C.)	+886-2-23466711
Shinfu Branch	1F., No.9, Songgao Rd., Sinyi District, Taipei City 110, Taiwan (R.O.C.)	+886-2-27221668

Branch Name	Address	Telephone
Tianmu Branch	1F., No.90, Sec. 6, Jhongshan N. Rd., Shihlin District, Taipei City 111, Taiwan (R.O.C.)	+886-2-28322888
Shihlin Branch	1F., No.307, Jhongjheng Rd., Shihlin District, Taipei City 111, Taiwan (R.O.C.)	+886-2-28839900
North Tianmu Branch	1F.,No.10, Tianmu W. Rd., Shilin District, Taipei City 111, Taiwan (R.O.C.)	+886-2-28766100
Jiantan Branch	1F, No.150, Sec. 4, Chengde Rd., Shilin District, Taipei City 111, Taiwan (R.O.C.)	+886-2-28827979
Shihpai Branch	1F., No.46, Sec. 2,Shihpai Rd., Beitou District, Taipei City 112, Taiwan (R.O.C.)	+886-2-28213366
Beitou Branch	1F., No.217, Guangming Rd., Beitou District, Taipei City 112, Taiwan(R.O.C.)	+886-2-28983039
Rueiguang Branch	No.514, Sec. 1, Neihu Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.)	+886-2-27985600
Chenggong Branch	1F., No.161, Sec. 4, Chenggong Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.)	+886-2-87911686
Neihu Branch	1F., No.358, Sec. 4, Chenggong Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.)	+886-2-27938668
Donghu Mini Branch	1F., No.182, Sec. 3, Kangning Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.)	+886-2-26312288
Mujha Branch	1F., No.69, Sec. 3, Mujha Rd., Wunshan District, Taipei City 116, Taiwan (R.O.C.)	+886-2-29375890
Wunshan Branch	1F.,No. 248,Sec. 4,Sinhai Rd.,Wunshan District,Taipei City 116,Taiwan(R.O.C.)	+886-2-29335358
Jingmei Branch	No. 405, Sec. 6, Roosevelt Rd., Wenshan District, Taipei City 116, Taiwan (R.O.C.)	+886-2-29329838
Keelung Branch	1F., No.150, Sinyi Rd., Sinyi District, Keelung City 201, Taiwan (R.O.C.)	+886-2-24221166
Bansin Branch	1F., No.293-1, Sec. 1, Jhongshan Rd., Banciao District , New Taipei City 220, Taiwan (R.O.C.)	+886-2-89611500
Banciao Branch	1F., No.187, Sec. 1, Wunhua Rd., Banciao District , New Taipei City 220, Taiwan (R.O.C.)	+886-2-29606600
Chongcing Branch	1F., No.290, Chongcing Rd., Banciao District , New Taipei City 220, Taiwan (R.O.C.)	+886-2-29634567
Sinbantecyu Branch	1F., No.88, Sec. 2, Sianmin Blvd., Banqiao District, New Taipei City 220, Taiwan (R.O.C.)	+886-2-29619666
Jiangcui Branch	1F., No.8, Sec.3, Shuang 10th Rd., Banciao District , New Taipei City 220, Taiwan (R.O.C.)	+886-2-22578999
Sijhih Branch	1F., No. 210, Sec. 2, Datong Rd., Sijhih District , New Taipei City 221, Taiwan (R.O.C.)	+886-2-26489699
Sindian Branch	1F., No.6, Sec. 2, Beisin Rd., Sindian District , New Taipei City 231, Taiwan (R.O.C.)	+886-2-29129988
North Sindian Branch	1F., No.25, Mincyuan Rd., Sindian District , New Taipei City 231, Taiwan (R.O.C.)	+886-2-29135000
Baociang Branch	1F., No.31, Baociang Rd., Sindian District, New Taipei City 231, Taiwan (R.O.C.)	+886-2-29123366
Yonghe Branch	1F., No.215, Sec. 1, Jhongshan Rd., Yonghe District , New Taipei City 234, Taiwan (R.O.C.)	+886-2-89235008
Shuanghe Branch	1F., No.588, Jhongjheng Rd., Yonghe District , New Taipei City 234, Taiwan (R.O.C.)	+886-2-29233333
Nashihjiao Branch	1F., No.65, Jhongjheng Rd., Yonghe District , New Taipei City 234, Taiwan (R.O.C.)	+886-2-29498838
Banhe Mini Branch	1F., No.726, Jhongjheng Rd., Jhonghe District , New Taipei City 235, Taiwan (R.O.C.)	+886-2-82261288
Jhonghe Branch	1F., No.66, Liancheng Rd., Jhonghe District , New Taipei City 235, Taiwan (R.O.C.)	+886-2-22452277
Tucheng Branch	1F., No.304, Sec. 2, Jhongyang Rd., Tucheng District , New Taipei City 236, Taiwan (R.O.C.)	+886-2-22630888
Jincheng Branch	1F., No.16, Sec. 3, Jincheng Rd., Tucheng District , New Taipei City 236, Taiwan (R.O.C.)	+886-2-22601177
Shulin Branch	1F., No.122, Sec.1, Jhongshan Rd., Shulin District , New Taipei City 238, Taiwan (R.O.C.)	+886-2-26812345
Sanhe Branch	1F., No.119, Sec. 4, Sanhe Rd., Sanchong District , New Taipei City 241, Taiwan (R.O.C.)	+886-2-22863286
Sanchong Branch	1F., No.208, Jhengyi N. Rd., Sanchong District, New Taipei City 241, Taiwan (R.O.C.)	+886-2-29828121
Erchongpu Mini Branch	1F., No.70-1, Sec. 1, Guangfu Rd., Sanchong District, New Taipei City 241, Taiwan (R.O.C.)	+886-2-29959876
Chongyang Branch	1F., No.66, Sec. 1, Chongyang Rd., Sanchong District , New Taipei City 241, Taiwan (R.O.C.)	+886-2-89881199
Chongsin Branch	1F.,No.42-1, Sec. 2, Chongsin Rd., Sanchong District , New Taipei City 241, Taiwan (R.O.C.)	+886-2-89726189
Sinjhuang Branch	1F., No.320, Jhongjheng Rd., Sinjhuang District , New Taipei City 242, Taiwan (R.O.C.)	+886-2-29929696
Danfong Branch	1F., No.879-15, Jhongjheng Rd., Sinjhuang District , New Taipei City 242, Taiwan (R.O.C.)	+886-2-29066888
North Sinjhuang Branch	1F., No.57, Sec. 2, Jhonghua Rd., Sinjhuang District , New Taipei City 242, Taiwan (R.O.C.)	+886-2-22776789
Minan Mini Branch	1F., No.179, Min-an Rd., Sinjhuang District , New Taipei City 242, Taiwan (R.O.C.)	+886-2-22068887

Branch Name	Address	Telephone
Lujhou Branch	1F., No.211, Jhongshan 1st Rd., Lujhou District , New Taipei City 247, Taiwan (R.O.C.)	+886-2-28482008
East Lujhou Branch	1F., No.135, Minzu Rd., Lujhou District , New Taipei City 247, Taiwan (R.O.C.)	+886-2-22839300
North Lujhou Branch	1F., No.355, Changrong Rd., Lujhou District, New Taipei City 247, Taiwan (R.O.C.)	+886-2-22881999
Danshuei Mini Branch	1F.,No.123, Jhongshan Rd., Danshuei District , New Taipei City 251, Taiwan (R.O.C.)	+886-2-86318822
Yilan Branch	1F.,No.271,Sec.2,Jhongshan Rd.,Yilan City ,Yilan County 260,Taiwan(R.O.C.)	+886-3-9351122
Lohdong Branch	1F.,No.232, Singdong S. Rd., Luodong Township, Yilan County 265, Taiwan (R.O.C.)	+886-3-9574320
Hsinchu Branch	1F., No.158, Jhongheng Rd., East District, Hsinchu City 300, Taiwan (R.O.C.)	+886-3-5222687
Guangfu Branch	No.35, Ln. 19, Guanxin Rd., East District, Hsinchu City 300, Taiwan (R.O.C.)	+886-3-5790678
Jhuke Branch	1F., No.2, Jinshan St., East District, Hsinchu City 300 , Taiwan (R.O.C.)	+886-3-5638080
East Hsinchu Branch	1F., No.32, Jianjhong Rd., East District, Hsinchu City 300, Taiwan (R.O.C.)	+886-3-5749190
Baoshan Branch	No.301, Shihpin Rd., East District, Hsinchu City 300, Taiwan (R.O.C.)	+886-3-5628877
Jingguo Branch	1F., No.375, Sec. 1, Jingguo Rd., East District, Hsinchu City 300, Taiwan (R.O.C.)	+886-3-5357655
Jhupei Branch	1F., No.49, Guangming 6th Rd., Jhubei City, Hsinchu County 302, Taiwan (R.O.C.)	+886-3-6560222
Jhongyuan Branch	1F., No.445, Sec. 2, Jhongbei Rd., Jhongli City, Taoyuan County 320, Taiwan (R.O.C.)	+886-3-4662211
Neili Mini Branch	1F.,No.262, Sec. 1, Zhonghua Rd., Jhongli City, Taoyuan County 320, Taiwan (R.O.C.)	+886-3-4611998
Jhongli Branch	1F., No.500, Yanping Rd., Jhongli City, Taoyuan County 320, Taiwan (R.O.C.)	+886-3-4223131
Nan JungLi Branch	No.68, Huannan Rd., Pingzhen City, Taoyuan County 324, Taiwan (R.O.C.)	+886-3-4028788
Yiwun Branch	No.1351, Zhongzheng Rd., Taoyuan City, Taoyuan County 330, Taiwan (R.O.C.)	+886-3-3018000
Taoyuan Branch	1F., No.32, Sec. 1, Chenggong Rd., Taoyuan City, Taoyuan County 330, Taiwan (R.O.C.)	+886-3-3373266
South Taoyuan Branch	1F., No.389, Fusing Rd., Taoyuan City, Taoyuan County 330, Taiwan (R.O.C.)	+886-3-3388866
North Taoyuan Branch	1F., No.124, Jingguo Rd., Taoyuan City , Taoyuan County 330 ,Taiwan (R.O.C.)	+886-3-3150566
Linkou Branch	1F., No.233, Fuxing 1st Rd., Guishan Township , Taoyuan County 333, Taiwan (R.O.C.)	+886-3-3962777
Bade Branch	1F., No.965, Sec. 1, Jieshou Rd., Bade City, Taoyuan County 334, Taiwan (R.O.C.)	+886-3-3716565
Nankan Branch	1F., No.257, Jhongheng Rd., Lujhu Township, Taoyuan County 338, Taiwan (R.O.C.)	+886-3-3212211
Toufen Branch	1F., No.951, Jhonghua Rd., Toufen Township, Miaoli County 351, Taiwan (R.O.C.)	+886-3-7695678
Taichung Branch	1F., No.50, Minzu Rd., Central District, Taichung City 400, Taiwan (R.O.C.)	+886-4-2292161
Keboguan Branch	1F.,No.179, Sec. 1, Taichung Port Rd., West District, Taichung City 403, Taiwan (R.O.C.)	+886-4-23101258
Chunggang Branch	1F., No.400, Sec. 1, Taichung Port Rd., West District, Taichung City 403, Taiwan (R.O.C.)	+886-4-23149999
North Taichung Mini Branch	1F., No.77, Yucai N. Rd., North District, Taichung City 404, Taiwan (R.O.C.)	+886-4-22231666
Wunsin Branch	1F., No.875, Sec. 4, Wunsin Rd., Beitun District, Taichung City 406, Taiwan (R.O.C.)	+886-4-22469988
Shizheng Branch	No.93, Sec. 2, Wenxin Rd., Situn District, Taichung City 407, Taiwan (R.O.C.)	+886-4-22545333
Situn Mini Branch	1F., No.111, Sec. 3, Taichung Port Rd., Situn District, Taichung City 407, Taiwan (R.O.C.)	+886-4-23551000
Nantun Branch	1F., No.234, Sec. 2, Wucyuan W. Rd., Nantun District, Taichung City 408, Taiwan (R.O.C.)	+886-4-24712268
Gongyi Branch	1F., No.53, Sec. 2, Gongyi Rd., Nantun District, Taichung City 408, Taiwan (R.O.C.)	+886-4-23291111
Hueijhong Mini Branch	No. 88, Sec. 3, Hueijhong Rd., Nantun Dist., Taichung City 408, Taiwan (R.O.C.)	+886-4-23891269
Dali Branch	1F., No.20, Dongrong Rd., Dali District, Taichung City 412, Taiwan (R.O.C.)	+886-4-24813333
Fongyuan Branch	1F., No.545, Jhongheng Rd., Fongyuan District, Taichung City 420, Taiwan (R.O.C.)	+886-4-25201010
Nantou Mini Branch	1F., No.220, Jhongshan St., Nantou City, Nantou County 540, Taiwan (R.O.C.)	+886-49-2207711
Changhua Branch	1F., No.76, Siaoyang Rd., Changhua City, Changhua County 500, Taiwan (R.O.C.)	+886-4-7279933

Branch Name	Address	Telephone
Yuanlin Branch	1F., No.372, Jhongheng Rd., Yuanlin Township, Changhua County 510, Taiwan (R.O.C.)	+886-4-8368676
Chiayi Branch	1F., No.241, Minsheng N. Rd., West District, Chiayi City 600, Taiwan (R.O.C.)	+886-5-2286600
Douliou Branch	1F., No.2, Singhua St., Douliou City, Yunlin County 640, Taiwan (R.O.C.)	+886-5-5360099
Central Tainan Branch	1F., No.167, Sec. 1, Minsheng Rd., West Central District, Tainan City 700, Taiwan (R.O.C.)	+886-6-2412318
Tainan Branch	1F., No.159, Sec. 1, Fucian Rd., West Central District, Tainan City 700, Taiwan (R.O.C.)	+886-6-2152345
West Tainan Branch	1F., No.212, Sec. 4, Jinhua Rd., West Central Dist., Tainan City 700, Taiwan (R.O.C.)	+886-6-2263636
Jhonghua Branch	1F., No.195, Sec. 2, Jhonghua E. Rd., East District, Tainan City 701, Taiwan (R.O.C.)	+886-6-3353535
East Tainan Branch	1F., No.290, Sec. 2, Changrong Rd., East District, Tainan City 701, Taiwan (R.O.C.)	+886-6-2085522
South Tainan Branch	1F., No.236, Sec. 2, Jiankang Rd., South District, Tainan City 702, Taiwan (R.O.C.)	+886-6-2919999
Yan Hang Branch	1F., No.111, Jhongheng Rd., Yongkang Dist., Tainan City 710, Taiwan (R.O.C.)	+886-6-2539199
Yongkang Branch	1F., No.425, Jhonghua Rd., Yongkang District, Tainan City 710, Taiwan (R.O.C.)	+886-6-2025787
Rende Mini Branch	1F., No.478, Zhongshan Rd., Rende District, Tainan City 717, Taiwan (R.O.C.)	+886-6-2798099
Jiali Branch	1F., No.410, Jhongshan Rd., Jiali District, Tainan City 722, Taiwan (R.O.C.)	+886-6-7221335
Sinying Branch	1F., No.137, Jhongshan Rd., Sinying District, Tainan City 730, Taiwan (R.O.C.)	+886-6-6336789
Sinsing Branch	1F., No.206, Minsheng 1st Rd., Sinsing District, Kaohsiung City 800, Taiwan (R.O.C.)	+886-7-2262325
Minzu Branch	1F., No.97, Minzu 2nd Rd., Sinsing District, Kaohsiung City 800, Taiwan (R.O.C.)	+886-7-2386567
Kaohsiung Branch	1F., No.168, Jhongheng 4th Rd., Cianjin District, Kaohsiung City 801, Taiwan (R.O.C.)	+886-7-2318141
East Kaohsiung Branch	1F., No.29, Cingnian 1st Rd., Lingya District, Kaohsiung City 802, Taiwan (R.O.C.)	+886-7-5351885
South Kaohsiung Branch	1F., No.21, Yisin 2nd Rd., Cianjhen District, Kaohsiung City 806, Taiwan (R.O.C.)	+886-7-3366768
Cianjhen Mini Branch	1F., No.480, Rueilong Rd., Cianjhen District, Kaohsiung City 806, Taiwan (R.O.C.)	+886-7-7261066
Jiouru Branch	1F., No.551, Jiouru 1st Rd., Sanmin District, Kaohsiung City 807, Taiwan (R.O.C.)	+886-7-3805558
Sanmin Branch	1F., No.366, Jiouru 2nd Rd., Sanmin District, Kaohsiung City 807, Taiwan (R.O.C.)	+886-7-3161155
North Kaohsiung Branch	1F., No.52, Mingcheng 2nd Rd., Sanmin District, Kaohsiung City 807, Taiwan (R.O.C.)	+886-7-3461199
Youchang Mini Branch	1F., No.803-3, Houchang Rd., Nanzih District, Kaohsiung City 811, Taiwan (R.O.C.)	+886-7-3681699
Boai Branch	1F., No.88, Boai 2nd Rd., Zuoying District, Kaohsiung City 813, Taiwan (R.O.C.)	+886-7-5567909
Gangshan Mini Branch	1F., No.388, Gangshan Rd., Gangshan District, Kaohsiung City 820, Taiwan (R.O.C.)	+886-7-6235500
Fongshan Branch	1F., No.85-1, Jhongshan Rd., Fongshan District, Kaohsiung City 830, Taiwan (R.O.C.)	+886-7-7451199
Wujia Branch	1F., No. 699, Wujia 2nd Rd., Fongshan District, Kaohsiung City 830, Taiwan (R.O.C.)	+886-7-8215101
Cingnian Branch	1F., No.315, Sec. 2, Cingnian Rd., Fongshan District, Kaohsiung City 830, Taiwan (R.O.C.)	+886-7-7777668
Pingtung Branch	1F., No.450, Zihyou Rd., Pingtung City, Pingtung County 900, Taiwan (R.O.C.)	+886-8-7383000
Taitung Mini Branch	1F., No.279, Jhongshan Rd., Taitung City, Taitung County 950, Taiwan (R.O.C.)	+886-8-9339898
Hualien Branch	1F., No.376, Jhongshan Rd., Hualien City, Hualien County 970, Taiwan (R.O.C.)	+886-3-8340566
East Hualien Branch	1F., No.1-7, Gongyuan Rd., Hualien City, Hualien County 970, Taiwan (R.O.C.)	+886-3-8351101



## Overseas Service Outlets

### Branch

Units	Address	Tel	Fax
Hong Kong Branch	Suite 2801, 28/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong	852-2916-1888	852-2810-9742
Kowloon Branch	5/F, Tower 2, The Gateway, No. 25 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong	852-2916-1688	852-2805-0899
Singapore Branch	8 Marina View, #33-02, Asia Square Tower 1, Singapore 018960	65-6351-4888	65-6532-5999
Shanghai Branch	27F, Shanghai World Financial Center, 100 Century Avenue, Pudong New Area, Shanghai 200120, P.R. China	86-21-2080-5888	86-21-6877-8788
New York Branch	11F, #521 Fifth Avenue, New York, NY 10175, USA	1-212-4578888	1-212-4576666
New Delhi Branch	A1-16, Wenger House, Rajiv Chowk, Connaught Place, New Delhi-110 001	91-11-43688888	91-11-23731815
Sriperumbudur Branch	Plot No.42 (old No. 105) Chennai Bangalore Highways NH4, Sriperumbudur, Kancheepuram District Tamil Nadu- 602105	91-44-66227700	91-44-66227799
Ho Chi Minh City Branch	Unit 902~909, 9th Floor, Kumho Asiana Plaza Saigon, 39 Le Duan St., Dist 1, HCMC, Vietnam	848-3910-1888	848-3910-1999
Tokyo Branch	Roppongi Hills Mori Tower, 37F 10-1 Roppongi 6-Chome, Minato-Ku, Tokyo 106-6137 Japan	81-3-5413-8168	81-35413-8140

### Subsidiary

Units	Address	Tel	Fax
CTBC Bank (Philippines) Corp.	16th to 19th Floors, Fort Legend Towers, 31st Street corner 3rd Avenue, Bonifacio Global City, Taguig City, Philippines 1634.	63-2-9889287	63-2-5767935
CTBC Bank Corp. (Canada)	1518 West Broadway, Vancouver, B.C., Canada, V6J 1W8	1-604-6833882	1-604-6833723
CTBC Bank Corp. (USA)	801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017	1-310-7912828	1-424-277-4693
PT Bank CTBC Indonesia	Tamara Center, 15th-17th Fl., J1 Jend. Sudirman Kav. 24, Jakarta, 12920, Indonesia	62-21-25578787	62-21-5206378

### Representative Office

Units	Address	Tel	Fax
Bangkok Rep. Office	Suite 803,8F, GPF Witthayu, Tower A, 93/1 Wireless Road, Lumpini, Pathumwan, Bangkok 10330, Thailand	66-2-2543139	66-2-2566480
Hanoi Rep. Office	4th Fl., 41B Ly Thai To Street, Hanoi, Vietnam	84-4-8249088	84-4-8249099
Los Angeles Rep. Office	17851 Colima Road, Suite A1, City of Industry, CA91748, USA.	1-626-8397660	1-626-8393562
Beijing Rep. Office	B-111, The grand pacific building, 8a, Guanghua rd., Chao Yang district, Beijing, P. R.C. 100026	86-10-65815703	86-10-65815701

**CTBC BANK CO., LTD.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL REPORTS**

**December 31, 2013 AND 2012**

**AND**

**INDEPENDENT AUDITORS' REPORT**

**Address: No. 3 Sung-Shou Road, Taipei, Taiwan, R.O.C.**  
**Telephone Number: 886-2-2722-2002**

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL REPORTS**  
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安侯建業聯合會計師事務所

KPMG

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Fax 傳真 + 886 (2) 8101 6667  
Internet 網址 www.kpmg.com.tw

**Independent Auditors' Report**

The Board of Directors  
CTBC Bank Co., Ltd.

We have audited the accompanying consolidated balance sheets of CTBC Bank Co., Ltd. and its subsidiaries as of December 31, 2013 and December 31, January 1 of 2012, and related consolidated comprehensive income statements, changes in consolidated stockholders' equity, and consolidated cash flows for the year ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements mentioned above present fairly, in all material respects, the consolidated financial position of CTBC Bank Co., Ltd. and its subsidiaries as of December 31, 2013 and December 31 and January 1 of 2012, along with its consolidated financial performance and cash flow for year ended December 31, 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, the Regulations Governing the Preparation of Financial Reports by Securities Firms, the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, and International Financial Reporting Standards (IFRS), International Accounting Standards, International Financial Reporting Interpretations Committee Interpretations, and Standing Interpretations Committee Interpretations accepted by the Financial Supervisory Commission.

The structured notes cases as stated in Note 9(D) are still under investigation by the judiciary, and the results remain uncertain.

Individual financial statements of CTBC Bank Co., Ltd. were additionally prepared, and we have expressed a modified unqualified opinion on it for user reference.

KPMG

Taipei, Taiwan, R.O.C.  
February 27, 2014.

**Notice to Readers**

The accompanying consolidated financial reports are intended only to present the financial position, financial performance and cash flows in accordance with IFRSs accepted by the Financial Supervisory Commission and not those of any other jurisdictions. The standards, procedures, and practices to audit such financial reports are those generally accepted and applied in the Republic of China.

It should be noted the independent auditors' report and the accompanying consolidated financial reports were originally prepared in Chinese. As information loss underlies the nature of language transition, when conflicts or ambiguities arise in interpretations between the two versions, the Chinese version shall prevail

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
Cash and cash equivalents (Note 4 and 6(A))	\$ 84,431,256	4	37,258,838	2	36,847,941	2
Due from Central Bank and call loans to bank (Note 6(B) and 8)	125,125,631	6	109,218,345	6	118,151,855	6
Financial assets measured at fair value through profit or loss (Note 4, 6(C), (T) and (AS), and 7)	74,994,645	3	74,558,504	4	61,524,398	3
Available-for-sale financial assets—net (Note 4, 6(D), (T) and (AS), 8, and 9(A))	295,394,274	14	308,287,286	16	321,225,166	17
Derivative financial assets—hedging (Note 4 and 6(E))	910,113	-	1,577,954	-	2,067,772	-
Securities purchased under reverse repurchase agreements (Note 4 and 6(F))	-	-	-	-	1,335,711	-
Receivables—net (Note 4, 6(G) and (J), 7, and 8)	165,594,643	8	138,427,227	7	130,001,187	7
Current income taxes assets (Note 4)	976,140	-	1,182,828	-	1,306,043	-
Assets held for sale-net (Note 4 and 6(H))	6,323,343	-	-	-	-	-
Loans—net (Note 4, 6(I), (J) and (AR), and 7)	1,272,380,866	59	1,125,560,672	57	1,053,212,396	56
Held-to-maturity financial assets—net (Note 4, 6(K), (L) and (T), and 8)	61,274,934	3	70,965,629	4	95,932,513	5
Investment under equity method—net (Note 4 and 6(M))	2,022,173	-	2,055,863	-	2,080,690	-
Other financial assets—net (Note 4, 6(J), (N), (AL) and (AR), 8, and 13(C))	3,051,379	-	4,614,328	-	8,359,463	-
Premises and equipment—net (Note 4, 6(O) and (AL), 9(A) and 13(AA))	34,228,904	2	34,804,848	2	31,605,055	2
Intangible assets—net (Note 4 and 6(P))	12,195,178	1	12,190,876	1	12,234,901	1
Deferred income tax assets—net (Note 4 and 6(AB))	5,911,307	-	2,648,876	-	2,532,164	-
Other assets—net (Note 4, 6(Q) and (AL), and 8)	10,529,249	-	12,261,920	1	13,035,683	-
TOTAL ASSETS	\$ 2,155,344,035	100	1,935,413,994	100	1,891,448,938	100
LIABILITIES AND EQUITY						
LIABILITIES:						
Deposits from Central Bank and other banks (Note 6(R))	\$ 48,409,512	2	30,690,419	2	30,690,419	2
Due to Central Bank and other banks (Note 6(S))	7,384,030	-	5,008,601	-	5,008,601	-
Financial liabilities measured at fair value through profit or loss (Note 4 and 6(C))	27,915,294	1	24,652,431	1	24,652,431	1
Derivative financial liabilities—hedging (Note 4 and 6(E))	255,112	-	34,959	-	34,959	-
Securities sold under repurchase agreements (Note 4 and 6(T))	61,038,194	3	60,777,839	3	75,259,781	4
Payables (Note 6(U) and 7)	45,532,625	2	56,301,348	3	52,248,994	3
Current income tax liabilities (Note 4)	1,420,066	-	1,716,717	-	1,473,534	-
Deposits and remittances (Note 6(V) and 7)	1,731,169,325	80	1,525,115,648	79	1,459,327,462	77
Financial debentures (Note 6(E) and (W))	58,269,949	3	54,121,632	3	55,182,382	3
Other financial liabilities (Note 6(X))	15,656,655	1	22,817,037	1	19,174,479	1
Provisions (Note 4, 6(Y) and (AA))	5,140,976	-	5,409,129	-	5,121,623	-
Deferred tax liabilities (Note 4 and 6(AB))	272,276	-	641,780	-	535,221	-
Other liabilities (Note 6(Z))	5,958,295	-	7,555,394	-	5,740,104	-
Total Liabilities	2,008,422,309	92	1,794,842,934	92	1,759,733,694	92
Stockholders' Equity - Parent Company:						
Common stock (Note 6(AD))	78,622,897	4	75,371,376	4	75,371,376	4
Capital surplus (Note 6(AE))	16,000,568	1	16,000,568	1	16,000,568	1
Capital premium	1,181,491	-	1,181,491	-	891,573	-
Others	-	-	-	-	-	-
Retained earnings:						
Legal reserve	39,662,592	2	34,142,459	2	29,082,575	2
Special reserve	299,935	-	1,975,805	-	205,584	-
Undistributed earnings (Note 6(AE))	15,692,181	1	15,314,843	1	14,088,454	1
Other items in stockholders equity (Note 6(AD))	(4,608,902)	-	(3,491,702)	-	(4,008,590)	-
Non-controlling interest	70,964	-	76,220	-	83,704	-
Total Equity	146,921,726	8	140,571,060	8	131,715,244	8
TOTAL LIABILITIES AND EQUITY	\$ 2,155,344,035	100	1,935,413,994	100	1,891,448,938	100

**The accompanying notes are an integral part of the consolidated financial reports.**

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Expressed In Thousands of New Taiwan Dollars)**  
**For The Year Ended December 31, 2013 And 2012**

	For the year ended December 31				
	2013		2012		Change %
	Amount	%	Amount	%	
Interest income (Note 6(AH))	\$ 42,710,280	70	41,228,758	75	4
Less: Interest expenses (Note 6(AH))	(14,404,134)	(24)	(13,733,553)	(25)	5
Net interest income (Note 6(AH))	28,306,146	46	27,495,205	50	3
Service fee and commission income (Note 6(AI))	24,534,645	40	22,795,208	41	8
Gains on financial assets or liabilities measured at fair value through profit or loss (Note 6(AJ))	5,380,793	9	2,671,479	5	101
Realized gains on available-for-sale financial assets (Note 6(AK))	1,396,024	2	980,448	2	42
Realized gains on held-to-maturity financial assets	382	-	-	-	-
Foreign exchange gains	2,310,421	4	2,016,524	4	15
(Losses) gains on reversal of impairment loss (Note 6(AL))	(28,942)	-	6,275	-	(561)
Proportionate share of gains from associates or joint ventures under equity method (Note 6(M))	74,635	-	79,801	-	(6)
Other net non-interest income (Note 6(AM))	912,813	2	1,037,782	2	(12)
Public-welfare lottery payment	(2,086,800)	(3)	(2,086,800)	(4)	-
Net Revenue	60,800,117	100	54,995,922	100	11
Provisions for bad debt expenses and guarantee reserve (Note 6(J) and (AN))	(6,178,819)	(10)	(495,531)	(1)	1,147
Operating expenses:					
Employee benefits expenses (Note 6(AO))	(20,295,443)	(33)	(18,210,498)	(33)	11
Depreciation and amortization expenses (Note 6(AP))	(1,794,015)	(3)	(1,901,592)	(3)	(6)
Other general and administrative expenses (Note 6(AQ))	(13,842,335)	(23)	(12,639,582)	(23)	10
Total operating expenses	(35,931,793)	(59)	(32,751,672)	(59)	10
Net Income Before Tax from Continuing Operations	18,689,505	31	21,748,719	40	(14)
Income tax benefit (expenses) (Note 6(AB))	102,920	-	(3,186,730)	(6)	103
Net Income	18,792,425	31	18,561,989	34	1
Other comprehensive income:					
Exchange differences of overseas subsidiaries' financial reports translation	(947,453)	(2)	(1,276,515)	(2)	(26)
Unrealized valuation (losses) gains on available-for-sale financial assets	(329,697)	-	1,674,633	3	(120)
Defined benefit plan actuarial gains (losses)	186	-	(558,803)	(1)	
Proportionate share of other comprehensive income from associates or joint ventures under equity method	(66,622)	-	1,352	-	100
Income tax related to components of other comprehensive income (Note 6(AB))	206,779	-	207,138	-	(5,028)
Other comprehensive income (net amount after tax)	(1,136,807)	(2)	47,805	-	(2,478)
Total Comprehensive Income	\$ 17,655,618	29	18,609,794	34	(5)
Net Income Attributable to:					
Parent company	\$ 18,784,906	31	18,555,999	34	1
Non-controlling interest	7,519	-	5,990	-	26
	\$ 18,792,425	31	18,561,989	34	1
Comprehensive Income Attributable to:					
Parent company	\$ 17,660,874	29	18,609,081	34	(5)
Non-controlling interest	(5,256)	-	713	-	(837)
	\$ 17,655,618	29	18,609,794	34	(5)
Earnings per share (EPS) (Note 6(AG))	\$ 2.39		2.36		

The accompanying notes are an integral part of the consolidated financial reports.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**

**Stockholders' Equity - Parent company**

Note: For the year ended December 31, 2013 and 2012, employee bonuses of \$3,218 and \$6,440 were deducted from the consolidated statements of comprehensive income.

**The accompanying notes are an integral part of the consolidated financial reports.**



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For The Year Ended December 31, 2013 And 2012**  
**(Expressed In Thousands of New Taiwan Dollars)**

	<b>For the Year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activities:</b>		
Net Income Before Tax	\$ 18,689,505	21,748,719
Adjustments:		
Income and expense items with no effect on cash flows		
Depreciation expenses	1,192,896	1,291,341
Amortization expenses	601,119	610,251
Provision for bad debt expenses	6,178,819	495,531
Net gains on financial assets or liabilities measured at fair value through profit or loss	(503,386)	(442,005)
Interest expenses	14,404,134	13,733,553
Interest income	(42,710,280)	(41,228,758)
Dividends earned	(471,463)	(618,788)
Net changes in guarantee reserve	(7,141)	(18,052)
Net changes in other provisions	(70,006)	(141,724)
Share-based payment transactions	-	292,691
Losses on disposal of foreclosed properties	29,657	5,583
Proportionate share of gains from subsidiaries, associates or joint ventures under equity method	(74,635)	(79,801)
Losses on disposal and retirement of premises and equipment	25,529	2,671
Losses on disposal of intangible assets	2,598	71
Gains on disposal of investments carried at cost	(11,086)	(11,178)
Impairment losses on financial assets	-	1,195
Loss (Gains) on reversal of impairment loss on non-financial assets	28,942	(7,470)
Other adjustments	242,884	(348,701)
Subtotal of income and expense items with no effect on cash flows	(21,141,419)	(26,463,590)
Changes in Operating Assets and Liabilities:		
Net Changes in Operating Assets:		
(Increase) decrease in due from Central Bank and call loans to bank	(14,277,054)	22,234,353
Increase in financial assets measured at fair value through profit or loss	(701,238)	(13,092,948)
Decrease in hedging derivative financial assets	667,841	489,818
Increase in receivables	(28,121,769)	(8,466,355)
Increase in loans	(153,295,427)	(73,221,819)
Decrease in available-for-sale financial assets	12,563,189	14,612,512
Decrease in held-to-maturity financial assets	9,690,695	24,966,884
Decrease in other financial assets	965,724	3,918,094
Net Changes in Operating Assets	(172,508,039)	(28,559,461)
Net Changes in Operating Liabilities:		
Increase (decrease) in deposits from Central Bank and other banks	17,719,093	(20,673,649)
Increase (decrease) in financial liabilities measured at fair value through profit or loss	3,262,863	(1,877,911)
Increase (decrease) in hedging derivative financial liabilities	220,153	(13,617)
(Decrease) increase in payables	(10,562,337)	3,872,166
Increase in deposits and remittances	206,053,677	65,588,186
(Decrease) increase in other financial liabilities	(7,156,394)	3,659,760
(Decrease) increase in employee benefits provision	(199,381)	448,859
Net Changes in Operating Liabilities	209,337,674	51,003,794
Net Changes in Operating Assets and Liabilities	36,829,635	22,444,333
Sum of Adjustments	15,688,216	(4,019,257)
Cash Provided by Operating Activities	34,377,721	17,729,462
Interest received	42,761,444	41,271,193
Dividends received	530,280	671,148
Interest paid	(14,508,108)	(13,537,889)
Income tax paid	(3,615,136)	(2,762,206)
Net Cash Provided by Operating Activities	59,546,201	43,371,708

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS(CONT'D)**  
**For The Year Ended December 31, 2013 And 2012**  
**(Expressed In Thousands of New Taiwan Dollars)**

	<b>For the Year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of financial assets carried at cost	\$ (1,258)	-
Disposal of financial assets carried at cost	94,177	133,317
Return of capital from financial assets carried at cost	113,952	7,586
Purchase of premises and equipment	(6,950,382)	(4,793,800)
Disposal of premises and equipment	27,769	349,292
Purchase of intangible assets	(290,105)	(335,751)
Disposal of foreclosed properties	344,624	132,531
Decrease in receivables	773,591	751,693
Decrease (increase) in other assets	1,995,372	(935,424)
<b>Net Cash Used in Investing Activities</b>	<b>(3,892,260)</b>	<b>(4,690,556)</b>
<b>Cash Flows from Financing Activities:</b>		
Increase (decrease) in due to Central Bank and other banks	2,375,429	(2,518,527)
Issuance of financial debentures	4,947,000	-
Repayment of financial debentures	(450,000)	-
Increase (decrease) in securities sold under repurchase agreements	260,355	(14,481,942)
Decrease in payables	(90,321)	(990)
(Decrease) increase in other liabilities	(1,597,099)	1,815,290
Cash dividends issuance	(11,304,952)	(10,035,699)
Change in non-controlling interest	-	(8,197)
<b>Net Cash Used in Financing Activities</b>	<b>(5,859,588)</b>	<b>(25,230,065)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(991,703)</b>	<b>(1,073,057)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>48,802,650</b>	<b>12,378,030</b>
<b>Cash and Cash Equivalents, at the Beginning of the Period</b>	<b>111,540,202</b>	<b>99,162,173</b>
<b>Cash and Cash Equivalents, at the End of the Period</b>	<b>\$ 160,342,852</b>	<b>111,540,203</b>
<b>Components of cash and cash equivalents:</b>		
Cash and cash equivalents recognized in the balance sheet	\$ 84,431,256	37,258,838
Due from Central Bank and call loans to bank which meet IAS 7 definition of cash and cash equivalents	75,911,596	74,281,365
<b>Cash and Cash Equivalents, at the End of the Period</b>	<b>\$ 160,342,852</b>	<b>111,540,203</b>

The accompanying notes are an integral part of the consolidated financial reports.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL REPORTS**  
**December 31, 2013 and 2012**  
**(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)**

**1. BASIS OF PRESENTATION**

CTBC Bank Co., Ltd. (the “Bank”) was incorporated in March 1966 originally as “China Securities Investment Corporation.” In December 1970, the Bank changed its organization and was renamed China Trust Co., Ltd. Twenty-one years later, on July 2, 1992, it was approved to conduct commercial banking business and changed its name to CTBC Bank Co., Ltd.

In order to restructure overall resources, lower costs, expand the business scope, enhance competitiveness, and improve the quality of financial services and operating efficiency, on September 30, 2003, the Bank’s board of directors resolved to acquire Grand Commercial Bank, a wholly owned subsidiary of CTBC Financial Holding Co., Ltd., and to merge with it, with the Bank as the surviving entity. The acquisition date of record was December 1, 2003.

On August 1, 1991, Grand Commercial Bank was approved to conduct commercial banking business, and it began operations on December 30, 1991. As of November 30, 2003, Grand Commercial Bank had a business department, a trust department, a domestic banking unit, an offshore banking unit, and 42 domestic branches.

In order to develop the business units, enhance competitiveness, and provide customers with more convenient and varied financial services, the Bank assumed the outstanding assets, liabilities and operations of Fengshan Credit Cooperative (“FSCC”) and Enterprise Bank of Hualien (“EBH”) on October 1, 2004, and September 8, 2007, respectively.

In order to enhance the effectiveness of the overall operation of CTBC Financial Holding Company and to reduce operational risk and cost, the Bank merged with Chinatrust Bills Finance Corp., a wholly owned subsidiary of CTBC Financial Holding Co., Ltd., by issuing common shares in a 0.77-for-1 exchange for the shares of Chinatrust Bills Finance Corp. on April 26, 2008. The Bank is the surviving entity from this merger.

The Bank has been approved to conduct business in the following areas:

- (A) Checking accounts, savings accounts, and time deposits;
- (B) Short-, medium-, and long-term loans;
- (C) Note discounting;
- (D) Investment in marketable securities;

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (E) Domestic foreign exchange business;
- (F) Banker's acceptances;
- (G) Issuance of domestic standby letters of credit;
- (H) Domestic endorsement guarantees business;
- (I) Collection and payment agency;
- (J) Agency for government bonds, treasury bills, corporate bonds, and securities transactions;
- (K) Agency transactions and proprietary trading of short-term bills;
- (L) Credit card-related products;
- (M) Agency for sale of gold nuggets, gold coins, and silver coins;
- (N) Financial derivative businesses as approved by the Financial Supervisory Commission (FSC);
- (O) Custody and warehouse services;
- (P) Renting of safe-deposit boxes;
- (Q) Financial advisory services on corporate banking;
- (R) Foreign exchange business in connection with exports and imports, fund remittance and repatriation, foreign currency deposits and loans; guarantee for secured repayment, and attestation on exports and imports;
- (S) Non-discretionary trust funds for investment in foreign and domestic marketable securities;
- (T) Account receivable factoring business as approved by the FSC;
- (U) Endorsement and issuance of corporate bonds;
- (V) Issuance of financial debentures;
- (W) Underwriting, agency transactions, and proprietary trading of marketable securities;
- (X) Proprietary trading of government bonds;
- (Y) All businesses related thereto as specified in the license or other agency services as approved by the FSC;
- (Z) Trust and fiduciary services;

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AA) Margins on foreign currency transactions;

(AB) Issuance of cash value cards;

(AC) Public welfare lottery sales;

(AD) Futures proprietary trading business; and

(AE) Other businesses as approved by the FSC.

The Bank's headquarters coordinate corporate-wide operations and establishes domestic and overseas banking units to expand business. As of December 31, 2013, the Bank had 147 domestic branches, 9 foreign branches and 4 overseas representative offices, whereas its subsidiaries had 55 overseas offices.

The Bank's parent company and ultimate parent company is CTBC Financial Holding Co., Ltd.

## **2. APPROVAL DATE AND PROCEDURES OF THE FINANCIAL REPORTS**

The consolidated financial reports were approved by the board of directors on February 27, 2014.

## **3. NEW STANDARDS AND INTERPRETATIONS**

(A) Newly issued and revised accounting standards and interpretations accepted by the FSC and not yet adopted

In November 2009 International Accounting Standards Board (IASB) issued IFRS 9 – “Financial Instruments”, which came into effect on January 1, 2013. (In December 2011 IASB postponed the effective date until January 1, 2015. In November 2013, IASB has announced the abolishment of the effective date of January 1, 2015 so that preparers of financial reports have sufficient period of time to embrace the conversion of the new rules. The new effective date has not announced yet.) The FSC has accepted IFRS 9, but as of the report date has not yet announced when it will come into effect. Thus IFRS 9 cannot be adopted yet. IAS 39 - “Financial Instruments”, the 2009 version, should be adopted instead. The classification and measurement of consolidated financial assets are expected to be changed when IFRS 9 is adopted by the Bank and its subsidiaries.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (B) Newly issued and revised accounting standards and interpretations not yet accepted by the FSC

Listed as below are the accounting standards and interpretations newly issued and revised by IASB and likely relevant to the Bank and its subsidiaries but not yet accepted by the FSC. Neither has the FSC announced the effective dates.

<b>Issue date</b>	<b>New standards and amendments</b>	<b>Description and possible effect</b>	<b>Effective date per IASB</b>
May 12, 2011 June 28, 2012	<ul style="list-style-type: none"> <li>• IFRS 10 Consolidated Financial Statements</li> <li>• IFRS 12 Disclosure of Interests in Other Entities</li> <li>• Amended IAS 27 Separate Financial Statements</li> <li>• Amended IAS 28 Investments in Associates and Joint Ventures</li> </ul>	<ul style="list-style-type: none"> <li>• On May 12, 2011, a series of new standards and revisions related to consolidation, associates, and joint ventures were issued. They provide a control model by which to judge and analyze whether an investor has control of the investee, including a special purpose entity, while the consolidation process remains unchanged.</li> <li>• On June 28, 2012, amendments were issued to elaborate on the transitional rules of those standards.</li> <li>• If the standard, as stated above, is accepted, it may affect the distinguishment of controlled investees. And increase in disclosure of equity in subsidiaries and associates is expected.</li> </ul>	January 1, 2013
May 12, 2011	<ul style="list-style-type: none"> <li>• IFRS 13 Fair Value Measurement</li> </ul>	<ul style="list-style-type: none"> <li>• Other standards will be replaced by IFRS 13, to consolidate fair value measurement of financial and non-financial items in one standard.</li> <li>• The Bank and its subsidiaries would make further assessment on the impact of the adoption of new standard, as stated above, such as which valuation of assets or liabilities would be influenced. Additionally, this amendment may increase the disclosure of fair value measurement.</li> </ul>	January 1, 2013
June 16, 2011	<ul style="list-style-type: none"> <li>• Amended IAS 1 Presentation of Financial Statements</li> </ul>	<ul style="list-style-type: none"> <li>• Other comprehensive income items that can be reclassified to profit or loss and that cannot should be presented separately.</li> <li>• If the standard, as stated above, is adopted, it may affect the presentation of other comprehensive income items in statements of comprehensive income.</li> </ul>	July 1, 2012

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<u>Issue date</u>	<u>New standards and amendments</u>	<u>Description and possible effect</u>	<u>Effective date per IASB</u>
June 16, 2011	• Amended IAS 19 Employee Benefits	<ul style="list-style-type: none"> <li>• Mainly to eliminate corridor method. Employers are no longer allowed to recognize in profit and loss all changes in defined benefits obligation and plan assets. Past service cost should no longer be amortized and should be recognized in profit and loss immediately.</li> <li>• The Bank and its subsidiaries have recognized all changes in defined benefits obligation and plan assets to other comprehensive income on the first conversion date. The amendment, as stated above, has no impact on the Bank and its subsidiaries.</li> </ul>	January 1, 2013
November 19, 2013	• Amended IFRS 9 Financial Instruments	<ul style="list-style-type: none"> <li>• In order to make hedge accounting closer to risk management, this standard accepts more methods to be applied, encompassing revising, continuing and halting the application of hedge accounting related standards and accepting more kinds of risk exposure to be eligible to the definition of hedged item.</li> <li>• If the standard is accepted by the Bank and its subsidiaries, more transactions may be applicable to hedge accounting. And consequently, it may affect the measurement and disclosure of the related hedging instruments and hedged items.</li> </ul>	To be announced. It can be applied in advance of effective date.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This report was originally prepared in Chinese language. When conflicts or ambiguities arise in interpretations between the two versions, the Chinese version shall prevail.

Significant accounting policies adopted in the consolidated financial reports are summarized as below. Unless stated otherwise, they are applied consistently to all presentation periods in the financial reports and opening IFRS balance sheet as of January 1, 2012, prepared for the purpose of conversion to IFRS, International Accounting Standards, International Financial Reporting Interpretations Committee Interpretations, and Standing Interpretations Committee Interpretations accepted by the Financial Supervisory Commission (FSC) (“IFRSs accepted by the FSC”).



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(A) Assertion of compliance

The consolidated financial reports were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, the Regulations Governing the Preparation of Financial Reports by Securities Firms, the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants and International Financial Reporting Standards accepted by the FSC.

The consolidated financial reports are included in the period covered by the consolidated yearly financial reports prepared following Regulations Governing the Preparation of Financial Reports and IFRSs accepted by the FSC, and follow IFRS 1 – “First-time Adoption of IFRSs” as accepted by the FSC. Please refer to Note 15 for information on the impact of the conversion to IFRSs accepted by the FSC on the financial position, financial performance, and cash flows of the Bank and its subsidiaries.

(B) Basis of compilation

The consolidated financial reports have been prepared on a historical cost basis except for the following material items in the statement of financial position:

- (a) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- (b) Available-for-sale financial assets measured at fair value;
- (c) Hedging derivative financial instruments measured at fair value;
- (d) Cash-settled share-based payment agreements liability measured at fair value; and
- (e) Defined benefit assets, which are recognized as the net amount of pension plan assets plus unrecognized prior service cost and unrecognized actuarial losses, minus unrecognized actuarial gains and present value of defined benefit obligation.

(C) Basis of consolidation

- (a) Basis of compilation for consolidated financial reports

The consolidated financial reports encompass the Bank itself and controlled entities. All significant intra-group transactions are written-off.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(b) Subsidiaries included in the consolidated financial reports

<b>Name of Investor Company</b>	<b>Name of Subsidiary</b>	<b>Primary Business</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
CTBC Bank Co., Ltd.	CTBC Bank (Philippines) Corp.	Primarily engages in commercial banking and financing business	99.60%	99.60%	99.41%
"	PT Bank CTBC Indonesia	Primarily engages in commercial banking and financing business	99.00%	99.00%	99.00%
"	CTBC Bank Corp.(Canada)	Primarily engages in commercial banking and financing business	100.00%	100.00%	100.00%
"	CTBC Capital Corp.	Primarily engages in securities investment business	100.00%	100.00%	100.00%
CTBC Capital Corp.	CTBC Bank Corp. (USA)	Primarily engages in commercial banking and financing business	100.00%	100.00%	100.00%

(c) Below are investees excluded in the consolidated financial reports while the Bank has de facto control or over 50% holdings:

<b>Name of Investor Company</b>	<b>Name of Subsidiary</b>	<b>Primary Business</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>	<b>Description</b>
CTBC Bank Co., Ltd. and CTBC Bank (Philippines) Corp.	Chinatrust Forex Corporation	Foreign exchange brokerage	- %	- %	100.00%	Liquidated in December 2012.
CTBC Bank Co., Ltd.	GCB Finance (HK) Limited	Corporate loans and investment business	100.00%	100.00%	100.00%	The total assets and operating revenue of this investee company are insignificant.

(D) Foreign currency

- (a) A foreign currency transaction that is denominated or requires settlement in a foreign currency, shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
- (b) At each balance sheet date, foreign currency monetary items shall be translated using the closing rate. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (c) Foreign currency differences arising on the settlement of a foreign currency transaction are recognized in current profit or loss. Foreign currency differences arising on the retranslation of monetary item, except for differences arising on the retranslation of monetary item designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge are recognized directly in other comprehensive income, are recognized in profit or loss when it incurred.
- (d) When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange difference of that gain or loss shall be recognized in other comprehensive income. Otherwise, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange difference of that gain or loss shall be recognized in profit or loss.
- (e) Functional currency and presentation currency

The functional currency of the Bank and its subsidiaries is the currency of the primary economic environment in which they operates. The financial reports are presented in New Taiwan Dollar, the functional currency of the Bank.

(E) Cash and cash equivalents

The statements of cash flows are compiled based upon cash and cash equivalents. Cash comprises cash on hand, savings accounts, checking accounts, and unrestricted time deposits or negotiable certificates of deposit which may be terminated anytime without impairing the principal. Cash equivalents consist of short-term and highly liquid investments that are readily convertible to known amounts of cash and will mature within a short period so that interest rate fluctuations have little effect on their values. Cash equivalents include short-term bills with maturities within three months from the investment date.

(F) Financial instruments

(a) Financial assets

Financial assets held by the Bank and its subsidiaries are recorded on the trading date. Except for financial instruments classified as held for trading, other financial instruments are initially recognized at acquiring or issuing cost plus transaction costs. Upon disposition, the cost of sale of equity securities is determined by the moving-average method, and the cost of sale of debt securities is determined by the first-in, first-out (FIFO) method.

1. Financial assets measured at fair value through profit or loss

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. The derivative financial instruments held by the bank and its subsidiaries, except for those designated as hedging instruments, are classified under these accounts. At each balance sheet date, the fair value is remeasured, and the resulting gain or loss from such remeasurement is recognized in current profit or loss.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
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2. Available-for-sale financial assets — net

At each balance sheet date, the fair value is remeasured, and the resulting gain or loss from such remeasurement is recognized directly in other comprehensive income. Interest on a debt instrument classified as available-for-sale is accrued; the relevant premium/discount is amortized by using the effective-interest-rate method. If there is objective evidence that an available-for-sale financial asset is impaired, the carrying amount of the asset is reduced, and impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss of the available-for-sale equity securities decreases, the impairment loss recognized in profit or loss shall not be reversed through profit or loss. If, in a subsequent period, the amount of the impairment loss of the available-for-sale debt securities decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized. A gain or loss on available-for-sale financial assets is recognized directly in other comprehensive income, except for impairment losses and foreign exchange gains or losses arising from monetary financial assets, until the financial assets are derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income is charged to profit or loss.

3. Securities under repurchase/reverse repurchase agreements

Securities sold/purchased with a commitment to repurchase/reverse repurchase at predetermined price are treated as financing transactions. The difference between the cost and the repurchase/reverse repurchase price is treated as interest expenses/revenue and recognized over the term of the agreement. On the selling/purchasing date, these agreements are recognized as securities sold under repurchase agreements or securities purchased under reverse repurchase agreements.

4. Loans and receivables

At initial recognition, loans and receivables include incremental direct transaction costs, and the subsequent measurement recognizes interest revenues through the effective interest method on accrual basis, under which the loans and receivables are carried at amortized cost less impairment losses. Loans are reclassified as a non-accrual account if either of the following conditions is met, and interest collected while accruing of interest has been suspended is included in earnings only to the extent of cash actually received.

- A. Collection of payment of principal or interest accrued is considered highly unlikely; or
- B. Payment of principal or interest accrued is over 3 or 6 months past due; or
- C. Payment of principal, interest accrued and other suspense account of credit card is over 90 days past due.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

As the purpose of holding those creditor's rights has changed, these loans held for sale are accounted for under "other financial assets" and will be valued using the lower-of-cost-or-market method in the future.

With regards to loans and receivables, the objective evidence shall be identified first to reveal any impairment existing for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, it shall be included in a set of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment are not required to be collectively assessed because impairment is or continues to be recognized.

Nonaccrual account deemed uncollectible are written off upon approval of the board of directors. The recovery of written-off loans and accounts receivable is accounted for under the reversal of the allowance for credit losses.

Reserves for guarantees are appropriately provided based on an estimate of probable losses inherent in the ending balances of guarantees, acceptances receivable, and commercial paper.

Another estimate will also be reached following Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans issued by the FSC and other related regulations. Final provision will be based on the higher of the two estimates.

5. Held-to-maturity financial assets — net

The amortized cost and interest income of held-to-maturity financial assets are determined by using the effective-interest-rate method. If there is objective evidence that a held-to-maturity financial asset is impaired, the carrying amount of the asset is reduced, and impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.

6. Financial assets carried at cost

Equity instruments with no quoted market price are initially recognized at whose fair value plus transaction costs. At each balance sheet date, fair value can be reliably measured if either of the following conditions is met:

- A. the variability in the range of reasonable fair value estimates is not significant for that instrument; or

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- B. the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, it is not permissible to measure the instrument at fair value; instead, the instrument shall be carried at cost.

7. Debt investments without active markets

The amortized cost and interest income of debt investments without an active market are determined by using the effective-interest rate method. When there is objective evidence that an impairment loss on financial assets has been incurred, impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.

8. Financial assets initially classified as measured at fair value through profit or loss (other than derivative financial assets and those designated as assets measured at fair value through profit or loss) may be reclassified into other categories if those financial assets are no longer held for the purpose of selling and meet the criteria listed below; financial assets initially classified as available-for-sale that would have met the definition of loans and receivables may be reclassified out of the available-for-sale category to the loans and receivables. The accounting treatments on the date of reclassification are summarized as follows:

- A. When financial assets initially classified as measured at fair value through profit or loss have met the definition of loans and receivables and the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity, they shall be reclassified at their value on the date of reclassification, which will become their new cost or amortized cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.
- B. Financial assets initially classified as measured at fair value through profit or loss which do not meet the preceding criterion may be reclassified out of the fair value through profit or loss category only in rare circumstances and shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.
- C. When financial assets initially classified as available-for-sale have met the definition of loans and receivables and the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity, they shall be reclassified at their value on the date of reclassification, which will become their new cost or amortized cost, as applicable.

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- D. For any previous gain or loss on a financial asset that has been recognized directly under owners' equity, if the financial asset has a fixed maturity, the gain or loss shall be amortized to current profit or loss over the remaining life of the financial asset; if not, the gain or loss remains under owners' equity.

9. Financial asset impairment

If there is an objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate; the amount of the loss shall be recognized in profit or loss in the current period. The estimation of future cash flows includes the recoverable amount of collateral and related insurance when determining the amount of the loss.

The aforesaid objective evidence includes:

- A. Significant financial difficulty of the issuer or obligor;
- B. A breach of contract, such as a default or delinquency in interest or principal payments;
- C. The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- D. It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- E. The disappearance of an active market for that financial asset because of the issuer's financial difficulties;
- F. Adverse changes in the payment status of the borrower; and
- G. Changes in national or local economic conditions that correlate with defaults on the assets.

10. Derecognition of financial assets

The Bank or its subsidiaries shall derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire or transfers substantially all the risks and rewards of ownership of the financial assets.

Securities lending agreement or repurchase transactions where bonds or stocks are taken as collateral shall not be derecognized because the Bank or its subsidiaries have retained substantially all the risks and rewards of ownership. The transaction of asset backed securitization is applying to such situation when the Bank or its subsidiaries still retained partial risks.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
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(b) Financial liabilities

The financial liability held by the Bank or its subsidiaries includes a financial liability measured at fair value through profit or loss (including the instruments designated as at fair value through profit or loss), amortized cost of a financial liability and hedge derivatives.

1. Financial liabilities measured at fair value through profit or loss

A financial liability is held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. A derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, is classified as instrument held for trading as well. Financial liabilities held for trading include obligations to deliver financial assets borrowed by a short seller.

2. Amortized cost of a financial liability

Financial liabilities are classified at amortized cost of a financial liability, except for financial liabilities measured at fair value through profit or loss, hedged derivatives financial liability, financial bonds payable, financial guarantee contracts, commitments to provide a loan at a below-market interest rate and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

3. Derecognition of a financial liability

The Bank and its subsidiaries shall remove a financial liability from its statement of financial position when, and only when, it is extinguished.

(c) Derivatives and hedging accounting

Derivatives instruments is initially recognized at fair value on contract date and subsequently measured at fair value. Fair value includes quoted price in an active market, occurring market transaction prices or model valuation technique. All derivatives instruments are recognized as assets with positive fair value and as liability with negative fair value.

The Bank and its subsidiaries should accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and the entire hybrid contract is not designated as at fair value through profit or loss. In addition, the embedded derivative is recognized as financial asset or liability as measured at fair value through profit or loss.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

When a fair value hedge, cash flow hedge, and hedge of a net investment in a foreign operation are in conformity with all the conditions for applying hedge accounting, the affected profit or loss is recognized by offsetting the changes in the fair value of hedging instruments and hedged items. The related accounting treatments are as follows:

1. Fair value hedge: Changes in the fair value of derivatives that are designated and qualified as fair value hedging instruments against the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment are recognized through profit or loss in the current period.
2. Cash flow hedge: Where a derivative financial instrument is designated as a hedge of the variability in cash flow of a recognized asset or liability or a highly probable forecast transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognized directly under other comprehensive income. When the hedged transaction actually affects the profit or loss, the gain or loss previously recognized under other comprehensive income shall be recognized through current profit or loss. Any gain or loss from the change in fair value relating to an ineffective portion of the hedge transaction is recognized immediately through profit or loss in the current period.
3. Hedge of a net investment in a foreign operation: The effective portion of any gain or loss on a hedging instrument relating to a hedge against foreign currency fluctuation in a foreign operation is recognized directly in other comprehensive income until the disposal of the foreign operation, at which time the cumulative gain or loss recognized directly under other comprehensive income is recognized in profit or loss in the current period.

(d) Financial guarantee contracts

The Bank and its subsidiaries recognize financial guarantee liabilities initially at their fair value at the date of providing guarantee. The Bank and its subsidiaries receive commission income with non-arm's-length transaction at contract date; this is, the income could represent the fair value of financial guarantee contract. The advanced service fee is recognized as deferred item and amortized by straight-line method over the life of the financial guarantee.

Financial guarantee contracts shall be subsequently measured by the Bank and its subsidiaries at the higher of:

1. The amount determined in accordance with "Provisions"; and
2. The amount initially recognized less, when appropriate, cumulative amortization recognized from deferred revenues.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(G) Non-financial asset impairment

At each balance sheet date, the recoverable amount of an asset is estimated and compared with the carrying amount whenever there is an indication that the non-financial asset may be impaired. An impairment loss is recognized when the recoverable amount, higher of fair market value or value in use, is less than the carrying amount. For assets other than goodwill, reversal of impairment loss is recognized when the recoverable amount of the asset has increased from its prior-period estimation. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(H) Assets held for sale

For an asset or disposal group to be classified as held for sale, it needs to be disposed of through sale rather than through continuing use to recover its carrying amount. Assets or disposal groups that meet the criteria to be classified as such must be subject only to terms that are usual and customary and be available for immediate sale, which is highly probable, within one year of such classification. After being classified as held for sale, it is measured at the lower of carrying amount and fair value less costs to sell.

Amortization or depreciation on intangible assets, premises and equipment ceases once they are classified as held for sale.

(I) Investments in associates

Investments in associates in which the Bank is able to exercise significant influence and subsidiaries the Bank has control over, are accounted for under the equity method and initially recognized at cost. Goodwill, deducting accumulated impairment loss, relating to an associate is included in the carrying amount of the investment. The equity method discontinues to be used from the date when it ceases to have significant influence, and the book value is taken as the new cost of the investment.

The Bank has significant influence if holding, directly or indirectly 20% or more of the voting right of the investee, and has control over the investees if holding, directly or indirectly 50% or more of the voting right of the investee, unless it can be clearly demonstrated that this is not the case.

After the date of acquisition the Bank or its subsidiaries' share of the profit or loss of the associates is recognized in profit or loss. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount of the investment may also be necessary for changes in the Bank or its subsidiaries' proportionate interest in the associates arising from changes in the associates' other comprehensive income. If the Bank or its subsidiaries' share of losses of an associate equals or exceeds their interest in the associate (including non-guarantee long-term receivables), the Bank or its subsidiaries discontinues recognizing its share of further losses. Additional losses are provided for, and a liability is recognized, only to the extent that the Bank or its subsidiaries has incurred legal or constructive obligations or made payments on behalf of the associate.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the parent's ownership interest and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity.

**(J) Cash surrender value of life insurance**

The Bank's U.S. subsidiary purchased single-premium life insurance under which the executive officers and directors are the insured, while the subsidiary is the owner and beneficiary thereof. The cash surrender value indicates the amount that would be received if the life insurance is terminated prior to the maturity date, and is accounted for under "other assets".

**(K) Premises and equipment**

The Bank and its subsidiaries property and equipment are recognized after deducting any accumulated depreciation and accumulated impairment losses from historical cost. The historical cost includes any costs directly attributable to acquiring the assets.

Subsequently expenditure of property and equipment shall be recognized as an asset or be included in the carrying amount of assets, when, and only when it is probable that the future economic benefits that are associated with property and equipment will flow to the Bank or its subsidiaries, and the cost of property and equipment can be measured reliably. The carrying amount of those parts that are replaced is derecognized. A major improvement or repair expense that can extend the benefits over afterward period is regards as capital expenditure; while frequently maintenance or repairs are charged to current expenses.

If the Bank and its subsidiaries have obligations to dismantle, remove and restore the property and equipment, the obligation for which the Bank and its subsidiaries incurs either when the item is acquired or as a consequence of having used the item during a particular period shall be recognized as the cost of the property and equipment as well as liability.

Depreciation is computed using the straight-line method; the useful lives are calculated based on the normal economic lives. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The residual value and the useful life of an asset shall be reviewed or adequately adjusted at each financial year-end. Useful lives of major premises and equipment are as follows:

Buildings and premises	10~56 years
Transportation equipment	4~ 6 years
Miscellaneous equipment	5~20 years

The gain or loss arising from the disposition of an item of property and equipment shall be recognized in current profit or loss and determined as the difference between the disposal proceeds and the carrying amount of the item.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(L) Intangible assets

(a) Computer software

Computer software system expenses, which are recorded on the basis of the actual cost of acquisition, are amortized using a straight-line method over a period of 3 to 15 years. Its amortization method, useful life and residual value are referred to the regulation of properties and equipment. The Bank and its subsidiary use cost model to proceed subsequently measurement.

(b) Goodwill

The Bank and its subsidiaries account a business combination by applying the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities assumed by the acquirer and the equity interests issued by the acquirer. In addition, other expense directly contributed to the acquisition is included. The acquirer shall measure the identifiable assets acquired from business combination and the liabilities or contingent liabilities assumed at their acquisition-date fair values without considering non-controlling interest. The acquirer shall recognize goodwill as of the acquisition date measured as the excess of the consideration transferred over the fair value of net identifiable assets held according to holding proportion. Adversely, the difference may result in directly recognizing a gain on a purchase.

Goodwill relating to cash-generating units is tested for impairment periodically each year. An impairment loss is recognized when the recoverable amount is less than the carrying amount. Impairment losses cannot be reversed once an impairment loss has been recognized.

(M) Foreclosed properties

Foreclosed properties received are stated at acquired cost, and the difference between it and the nominal value of the original claim is reflected as a credit loss. On the balance sheet date, if the foreclosed properties received are still unsold, they shall be evaluated at the lower of carrying amount and net fair market value. If there is sufficient evidence indicating that the net fair market value is lower than the carrying amount of foreclosed properties, the difference after reassessment is accounted for under impairment loss on assets. Gain or loss on disposal of foreclosed properties is recognized in current profit or loss as well.

(N) Provisions

The Bank and its subsidiaries recognize provisions only if all of the following conditions is met:

- (a) An entity has a present obligation, legal or constructive, as a result of a past event;

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) A reliable estimate can be made of the amount of the obligation.

The Bank and its subsidiaries shall not recognize provisions for future operating losses.

Where there are a number of similar obligations the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognized.

The amount of a provision is measured subsequently as the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The deficiency is recognized as profit or loss of the current period.

**(O) Revenue recognition**

The Bank and its subsidiaries' income is recognized on an accrual basis. Please refer to Note 4(F)(a)4. loans and receivables-for more information on interest income from receivables and loans.

**(P) Employee benefit**

- (a) Short-term employee benefit: the Bank or its subsidiaries charges the short-term and non-discounted benefit expectedly paid in near future to current expenses over the periods services are rendered by employees.
- (b) Post-employment benefit: The Bank and its subsidiaries' pension plan comprises defined contribution plan and defined benefit plan.
  - 1. A defined contribution plan is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

2. A defined benefit plan is a post-employment benefit plan under which benefit is paid to an employee on the basis of their ages, service periods and compensated salaries at the date of retirement. The Bank recognizes actuarial gains and losses which are incurred by the change of actual experience and actuarial assumption in other comprehensive income, and recognize pension asset or liability in balance sheet in which asset or liability is the amount of actuarial present value of defined benefit obligation deducting fair value of plan assets. The calculation of defined benefit obligation is performed annually by an actuary using the projected unit credit method. The actuarial present value of defined benefit obligation is calculated by discounting future cash flow at the yield rate on AA credit rated bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. In accordance with the article 28 of the Regulations Governing the Preparation of Financial Reports by Public Bank's, when the interest incurred from retiree deposits with favorable rates exceed the interest generated from market rate, it should be considered the actuarial amount according to defined benefit plan regulated on IAS 19 "Employee Benefits" since the employee's retirement date. Otherwise, the parameter of actuarial assumption of competent authority should be followed (if have).
  3. The defined contribution plan of overseas unit is in accordance with respective authorities' regulation.
- (c) Termination benefits: Termination benefits are incurred when the Bank or its subsidiaries terminates employment prior to qualifying for retirement, or the employees accepted voluntary redundancy to get termination benefits in return. Termination benefits are recognized as a liability when the Bank and its subsidiaries are committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to provide termination benefits or make an offer of termination benefits to encourage voluntary redundancy. Termination benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

**(Q) Share based payment transactions**

The Bank's accounting treatments of share-based payment are as below.

- (a) Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, and the corresponding increase in owners' equity is recognized. The vesting period is estimated based on the ultimate vesting conditions that must be satisfied. The vesting conditions include service conditions and performance conditions, including market conditions. In valuing equity-settled payments, no account is taken of any vesting conditions other than market conditions.
- (b) For cash-settled share-based payment transactions, a liability equal to the portion of the goods or services received is recognized at its current fair value determined at each balance sheet date and at the date of settlement, with any changes in the fair value recognized in profit or loss of the period.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (c) Fair value of the share options at the grant date is measured with the use of an option pricing model based on management's best estimate of the exercise price, expected term, underlying share price, expected volatility, expected dividend yield, risk-free interest rate, and any other inputs to the model.

(R) Employee bonuses and directors' and supervisors' remunerations

The Bank's employees' bonuses, along with directors' (including independent directors) compensations are recognized as personnel expenses. Any difference lies between the amount approved by the Bank's board of directors representing its shareholders and previously recognized in the financial report is considered as change in accounting estimates which is then recognized as profit or loss of the current period.

(S) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss. Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years. Income tax expense is measured by interim reporting period net income before tax multiplied by best estimate effective annual tax rate. And the best estimate effective annual tax rate is determined by the management. Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities may be offset against each other if the following criteria are met by the Bank and its subsidiaries:

- (a) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (b) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - 1. Levied by the same taxing authority; or
  - 2. Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
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A deferred tax asset should be recognised for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

As a subsidiary of CTBC Financial Holding Co., Ltd., the Bank files a consolidated corporate income tax return with its parent company and its subsidiaries. The difference between the consolidated income tax and the Bank's ordinary income tax is adjusted at the parent-company level, and the Bank recognizes such difference as payables or receivables.

The Bank's 10% surtax on undistributed earnings is recorded as current expense on the date of the resolution of the board of directors on behalf of stockholders' meeting for declaring the distribution of earnings.

**(T) Contingent liabilities**

A contingent liability is defined as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank or its subsidiaries; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. The Bank and its subsidiaries shall not recognize a contingent liability; instead, contingent liability shall be appropriately disclosed.

**(U) Operating segments**

An operating segment is a component of the Bank and its subsidiaries that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank and its subsidiaries). The segment's operating results are reviewed regularly by the Bank's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance for which discrete financial information is available.

The prime responsibility of the Bank's parent company CTBC Financial Holding Co., Ltd. is the management of its subsidiaries, whose operational performance and resource allocation are executed under board approval of the parent company. The Bank and component subsidiaries periodically report actual financial results to the Group's Management Board, and thereby leading to its role as the chief operating decision maker.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**5. PRIMARY SOURCES OF SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS UNCERTAINTY**

When preparing the financial reports, the management needs to make judgments, estimates, and assumptions that affect the adoption of accounting policies, reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from these estimates.

Continuously evaluation of estimates and assumption should be made by the management. A change of accounting estimate should be recognized in the period when it incurs and in the affected future periods.

Please refer to the following for accounting policies and management judgments for certain account items have significant impacts on financial reports of the Bank and its subsidiaries and any information about any estimate and assumption that are uncertain, have significant risk and may have significant impact on the following year.

**(A) Impairment loss on loans**

When the Bank and its subsidiaries decide whether to recognize impairment loss, they mainly assess if there are any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable changes in debtor payment status, or sovereign or local economic situation related to debt payment in arrears. When analyzing expected cash flow, the estimates by the management are based on past losses experience on assets of similar credit risk characteristics. The Bank and its subsidiaries periodically reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss.

Please refer to Note 6(I) for impairment loss on loans.

**(B) Post-employment benefits**

The present value of post-employment benefits obligation is based on actuarial results of multiple assumptions. Any assumption changes will affect the carrying amount of post-employment benefits obligation.

The assumptions that determine net pension cost (revenue) include discount rate. The Bank and its subsidiaries determine an appropriate discount rate at the end of each year, and use the discount rate to calculate the present value of future cash outflow needed to cover the post-employment benefits obligation. To determine an appropriate discount rate, the Bank and its subsidiaries should take into account the interest rate of high-quality corporate bond or government bond, which should be issued in the same currency as that of post-employment benefits payments. The maturity of the bonds should match that of pension liability.

Other significant assumptions of post-employment benefits obligation are based on current market conditions. Please refer to Note 6(AA).

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**6. SUMMARY OF MAJOR ACCOUNTS**

(A) Cash and cash equivalents

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Cash on hand	\$ 17,074,209	12,089,433	11,693,690
Petty cash and revolving fund	11,841	10,737	10,830
Checks for clearance	2,723,737	4,811,376	4,199,905
Cash in transit	5,659,700	7,390,529	6,119,027
Due from other banks	58,961,769	12,956,763	14,824,489
Total	<u><u>\$ 84,431,256</u></u>	<u><u>37,258,838</u></u>	<u><u>36,847,941</u></u>

(B) Due from Central Bank and call loans to bank

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Required reserve—Account A	\$ 23,216,670	22,669,188	13,511,926
Required reserve—Account B	37,011,531	33,703,789	34,097,464
Required reserve—Foreign currency	-	-	199,914
Due from Central Bank	8,635,967	9,936,395	13,342,678
Call loans to banks	56,261,463	42,908,973	56,999,873
Total	<u><u>\$ 125,125,631</u></u>	<u><u>109,218,345</u></u>	<u><u>118,151,855</u></u>

The reserves for deposits are calculated at prescribed rates, using the average monthly balances of various deposit accounts, and are appropriated and deposited in the reserve account of the Central Bank of the Republic of China (Taiwan). Deposits in “Required reserve—Account A” are interest-free and can be withdrawn at any time; deposits in “Required reserve—Account B” are interest-bearing and cannot be withdrawn except for the monthly adjustment to the required reserve permitted by relevant regulations.

Parts of the above due from Central Bank and call loans to banks are restricted, and please refer to Note 8 for further details.

(C) Financial instruments measured at fair value through profit or loss

The financial assets held for trading by the Bank and its subsidiaries were as follows:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Commercial paper	\$ 39,378,571	36,388,149	24,074,309
Treasury bills	-	316,329	487,030
Government bonds	1,531,832	2,391,850	605,297
Convertible bonds	5,501,312	8,851,281	8,082,769
Financial debentures	4,091	19,772	35,547
Listed and OTC securities	776,323	268,057	31,946
Asset-backed securities	132,306	2,268,724	2,268,708
Derivative financial assets	27,393,924	24,002,938	26,267,482
Valuation adjustment of financial assets	276,286	51,404	(328,690)
Total	<u><u>\$ 74,994,645</u></u>	<u><u>74,558,504</u></u>	<u><u>61,524,398</u></u>

Please refer to Note 6(T) for information with regard to repurchase conditions for financial assets held for trading shown above. In addition, for the information on reclassification of financial assets, please refer to Note 6(AS).

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The Bank and its subsidiaries have no financial assets at fair value through profit and loss upon designation.

Financial liabilities measured at fair value through profit or loss of the Bank and its subsidiaries were as follows:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Derivative financial liabilities	\$ 27,913,158	24,644,057	25,377,546
Borrowed government bonds	-	-	1,150,726
Borrowed listed and OTC securities	2,136	8,374	2,070
<b>Total</b>	<b>\$ 27,915,294</b>	<b>24,652,431</b>	<b>26,530,342</b>

(D) Available-for-sale financial assets — net

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Commercial paper	\$ -	-	3,007,233
Negotiable certificates of deposit	226,400,000	233,600,000	238,000,000
Treasury bills	134,355	92,063	5,849,266
Government bonds	56,743,397	58,728,660	53,204,711
Corporate bonds	950,720	868,810	2,940,878
Financial debentures	2,755,632	202,280	2,657,806
Beneficiary certificates	5,972	-	53,436
Listed and OTC securities	5,546,751	12,648,562	14,559,801
Asset-backed securities	2,828,527	1,796,950	2,252,943
Other securities and bonds	497,169	488,387	510,439
Valuation adjustment of financial assets	(468,249)	(138,426)	(1,811,347)
<b>Total</b>	<b>\$ 295,394,274</b>	<b>308,287,286</b>	<b>321,225,166</b>

Please refer to Notes 6(T) and 8 for information with regard to the repurchase conditions for, or restrictions on, available-for-sale financial assets shown above. In addition, please refer to Note 6(AS) for the information on reclassification of financial assets.

Please refer to Note 9(A) for details of the trust contract with regard to Mega Financial Holding Company's shares held by the Bank.

(E) Derivative financial instruments — hedging

Hedging derivative financial assets of the Bank were as follows:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Fair value hedge:			
Interest rate swaps	\$ 910,113	1,575,777	2,067,730
Non delivery forwards	-	458	42
Hedge of a net investment in a foreign operation:			
Currency swaps	-	1,719	-
<b>Total</b>	<b>\$ 910,113</b>	<b>1,577,954</b>	<b>2,067,772</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Hedging derivative financial liabilities of the Bank were as below:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Fair value hedge:			
Interest rate swaps	\$ 87,191	1,748	8,329
Non delivery forwards	16,397	1,295	4,878
Hedge of a net investment in a foreign operation:			
Currency swaps	151,524	31,916	35,369
Total	<u>\$ 255,112</u>	<u>34,959</u>	<u>48,576</u>

(a) Fair value hedge

In order to minimize the risk from future market interest rate fluctuation, the Bank entered into interest rate swap transactions, where the interest rate payable on fixed-interest-rate debts issued has been swapped with a floating interest rate to reduce interest rate risk. The Bank further entered into non-delivery forwards; these contracts are principally to hedge against the foreign exchange fluctuation of capital of the international banking department.

<u>Hedged items</u>	<u>Financial instruments designated as hedging instruments</u>	<u>Designated hedging instruments</u>		
		<u>Fair value</u>		
		<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Perpetual subordinated debentures in USD	Interest rate swaps	\$ 818,787	1,433,060	1,865,146
Financial debentures in NTD	"	4,135	140,969	194,255
Capital of international banking department in USD	Non delivery forwards	(16,397)	(837)	(4,836)

For the year ended December 31, 2013 and 2012, net gains (losses) on the hedging derivative financial instruments and the hedged items were as follows:

	<u>For the year ended December 31 2013</u>	<u>For the year ended December 31 2012</u>
Net (losses) gains from derivative financial instruments	<u>\$ (34,713)</u>	<u>301,943</u>
Net(losses) gains from the hedged items	<u>\$ (344,220)</u>	<u>711,081</u>

(b) Hedge of a net investment in a foreign operation

In order to minimize the risk from overseas equity-method investments, the Bank entered into currency swaps to hedge against foreign exchange fluctuation.

<u>Hedged items</u>	<u>Financial instruments designated as hedging instruments</u>	<u>Designated hedging instruments</u>		
		<u>Fair value</u>		
		<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
CTBC Bank Co., Ltd. - Ho Chi Minh City Branch	Currency swaps	\$ (14,280)	(3,031)	(3,391)
CTBC Capital Corp.	"	(136,902)	(28,885)	(31,978)
CTBC Bank Corp. (Canada)	"	(342)	1,719	-

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(F) Securities purchased under reverse repurchase agreements

	<b>January 1, 2012</b>
Securities purchased under reverse repurchase agreements	<b>\$ 1,333,711</b>
Face value of securities	<b>1,299,999</b>

(G) Receivables — net

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Notes receivable	\$ 22,110	21,117	26,563
Accounts receivable	62,202,849	63,915,905	60,977,930
Accounts receivable factoring	85,235,395	59,861,960	49,808,155
Interest receivable	4,237,083	4,233,810	4,056,587
Acceptances receivable	5,734,306	5,256,431	10,584,242
Accrued income	7,779	24,004	26,901
Other receivables	10,679,124	7,066,226	6,624,789
Subtotal	168,118,646	140,379,453	132,105,167
Less: Allowance for credit losses	(2,523,778)	(1,947,418)	(2,085,207)
Less: Adjustment of discount and premium	(225)	(4,808)	(18,773)
Total	<b>\$ 165,594,643</b>	<b>138,427,227</b>	<b>130,001,187</b>

The accounts receivable shown above included the receivables from credit card holders who were involved in debt repayment negotiation with the Bank.

Please refer to Note 8 for information with regard to the restrictions on other receivables shown above.

Please refer to Note 6(J) for changes in allowance for credit losses of receivables listed above.

Receivables of the Bank and its subsidiaries should be included in impairment assessment. Please refer to the following table for the amount of receivables and the respective allowance for credit losses, excluding that of credit card receivables, which is accounted for under provisions. Total receivables do not encompass investments in security-related and other receivables whose impairment assessments are consistent with corresponding assets.

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Receivables excluded from evaluation of impairment	<b>\$ 2,901,449</b>	<b>3,851,944</b>	<b>4,391,412</b>

		<b>December 31, 2013</b>		
			<b>Adjustment of discount and premium</b>	<b>Allowance for credit losses</b>
	<b>Items</b>	<b>Receivables</b>		
With objective evidence of impairment	Individual assessment	\$ 685,512	-	676,980
	Collective assessment	4,413,442	-	597,978
Without objective evidence of impairment	Collective assessment	158,352,221	(225)	1,248,820
Total		<b>\$ 163,451,175</b>	<b>(225)</b>	<b>2,523,778</b>



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

		<b>December 31, 2012</b>		
			<b>Adjustment of discount and premium</b>	<b>Allowance for credit losses</b>
<b>Items</b>		<b>Receivables</b>		
With objective evidence of impairment	Individual assessment	\$ 335,689	-	318,401
	Collective assessment	4,597,520	-	958,516
Without objective evidence of impairment	Collective assessment	128,104,786	(4,808)	670,501
<b>Total</b>		<b>\$ 133,037,995</b>	<b>(4,808)</b>	<b>1,947,418</b>

		<b>January 1, 2012</b>		
			<b>Adjustment of discount and premium</b>	<b>Allowance for credit losses</b>
<b>Items</b>		<b>Receivables</b>		
With objective evidence of impairment	Individual assessment	\$ 332,420	-	202,500
	Collective assessment	5,515,252	-	1,101,016
Without objective evidence of impairment	Collective assessment	119,706,383	(18,773)	781,691
<b>Total</b>		<b>\$ 125,554,055</b>	<b>(18,773)</b>	<b>2,085,207</b>

(H) Assets held for sale — net

The Bank's board of directors approved the planned sale of 95% fractional ownership of its headquarter building on September 25, 2013. The Bank is commencing its auction to sell this property which is classified as held for sale accordingly.

	<b>December 31, 2013</b>
Real estate	<b>\$ 6,323,343</b>

(I) Loans — net

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Corporate loans	\$ 447,510,069	426,023,035	373,364,672
Micro-business loans	11,150,147	8,770,556	14,116,718
Mortgage loans	360,320,143	324,255,280	314,950,401
Automobile loans	1,665	2,401	2,985
Consumer loans	95,836,393	89,578,296	90,996,025
Subtotal of NTD loans	914,818,417	848,629,568	793,430,801
Foreign currency loans	370,855,755	285,028,460	269,838,132
Non-accrual loans	4,677,660	4,468,465	2,831,432
Subtotal	1,290,351,832	1,138,126,493	1,066,100,365
Less: Allowance for credit losses	(17,101,395)	(11,955,270)	(12,313,800)
Less: Adjustment of discount and premium	(869,571)	(810,551)	(574,169)
<b>Total</b>	<b>\$ 1,272,380,866</b>	<b>1,125,360,672</b>	<b>1,053,212,396</b>

The loans shown above included the loans to cash card holders and fiduciary loans to clients who were involved in debt repayment negotiation with the Bank.

Please refer to Note 6(AR) for the industry information.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Non-performing loans of the Bank and its subsidiaries were as follows:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Non-performing loans	\$ 4,963,896	4,715,191	3,020,965

For the years ended December 31, 2013 and 2012, suspended interest on non-performing loans were as follows:

	<u>For the year ended December 31, 2013</u>	<u>For the year ended December 31, 2012</u>
Suspended interest on non-performing loans	\$ 169,348	110,982

For the years ended December 31, 2013 and 2012, there were no loans written off without prior recourse.

Please refer to Note 6(J) for changes in allowance for credit losses of loans listed above.

Loans should be included in the total amounts of assessment of impairment to determine the allowance for credit losses, which was as follows:

		<u>December 31, 2013</u>		
			<u>Adjustment of discount and premium</u>	<u>Allowance for credit losses</u>
<u>Items</u>		<u>Loans</u>		
With objective evidence of impairment	Individual assessment	\$ 20,403,312	(43,594)	3,739,626
	Collective assessment	18,902,507	6,177	2,720,937
Without objective evidence of impairment	Collective assessment	1,251,046,013	(832,154)	10,640,832
Total		<u>\$ 1,290,351,832</u>	<u>(869,571)</u>	<u>17,101,395</u>

		<u>December 31, 2012</u>		
			<u>Adjustment of discount and premium</u>	<u>Allowance for credit losses</u>
<u>Items</u>		<u>Loans</u>		
With objective evidence of impairment	Individual assessment	\$ 22,554,209	(43,525)	4,396,562
	Collective assessment	12,753,481	10,455	2,729,828
Without objective evidence of impairment	Collective assessment	1,102,818,803	(777,481)	4,828,880
Total		<u>\$ 1,138,126,493</u>	<u>(810,551)</u>	<u>11,955,270</u>

		<u>January 1, 2012</u>		
			<u>Adjustment of discount and premium</u>	<u>Allowance for credit losses</u>
<u>Items</u>		<u>Loans</u>		
With objective evidence of impairment	Individual assessment	\$ 13,534,251	(31,248)	4,963,877
	Collective assessment	14,435,173	(4,619)	2,909,586
Without objective evidence of impairment	Collective assessment	1,038,130,941	(538,302)	4,440,337
Total		<u>\$ 1,066,100,365</u>	<u>(574,169)</u>	<u>12,313,800</u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(J) Allowance for credit losses

The changes in allowance for credit losses, attributed to loans, receivables, other financial assets, and provision of guarantee reserves, were as follows:

For the year ended December 31, 2013								
	Receivables			Loans			Other (Note)	Total
	Inherent risk of overall claims	Default risk of specific claims	Total	Inherent risk of overall claims	Default risk of specific claims	Total		
Beginning balance	\$ 670,501	1,276,917	1,947,418	4,828,880	7,126,390	11,955,270	427,421	14,330,109
Current provision (reversal)	568,282	(408,828)	159,454	5,756,501	118,001	5,874,502	152,263	6,186,219
Current write-off	-	(767,313)	(767,313)	-	(2,839,280)	(2,839,280)	(152,178)	(3,758,771)
Recovery of bad debts	-	1,162,393	1,162,393	-	2,081,817	2,081,817	820	3,245,030
Non-accrual loans transferred from non-loan financial assets	-	13,956	13,956	-	-	-	(13,956)	-
Exchange rate effects	10,037	(2,167)	7,870	55,451	(26,365)	29,086	6,139	43,095
Ending balance	<u>\$ 1,248,820</u>	<u>1,274,958</u>	<u>2,523,778</u>	<u>10,640,832</u>	<u>6,460,563</u>	<u>17,101,395</u>	<u>420,509</u>	<u>20,045,682</u>

For the year ended December 31, 2012								
	Receivables			Loans			Other (Note)	Total
	Inherent risk of overall claims	Default risk of specific claims	Total	Inherent risk of overall claims	Default risk of specific claims	Total		
Beginning balance	\$ 781,691	1,303,516	2,085,207	4,440,337	7,873,463	12,313,800	452,706	14,851,713
Current (reversal) provision	(102,501)	(464,424)	(566,925)	627,141	292,283	919,424	153,006	505,505
Current write-off	-	(832,660)	(832,660)	-	(3,571,584)	(3,571,584)	(164,297)	(4,568,541)
Recovery of bad debts	-	1,260,042	1,260,042	-	2,446,570	2,446,570	578	3,707,190
Non-accrual loans transferred from non-loan financial assets	-	6,430	6,430	-	-	-	(6,430)	-
Exchange rate effects	(8,689)	4,013	(4,676)	(238,598)	85,658	(152,940)	(8,142)	(165,758)
Ending balance	<u>\$ 670,501</u>	<u>1,276,917</u>	<u>1,947,418</u>	<u>4,828,880</u>	<u>7,126,390</u>	<u>11,955,270</u>	<u>427,421</u>	<u>14,330,109</u>

Note: Included financial assets transferred from non-accrual loans under other financial assets and provision of guarantee reserves, etc.

(K) Held-to-maturity financial assets — net

	December 31, 2013	December 31, 2012	January 1, 2012
Negotiable certificates of deposit	\$ 38,899,472	38,081,891	62,007,420
Treasury bills	3,144,422	11,139,595	9,166,139
Government bonds	10,560,995	13,064,837	14,802,406
Corporate bonds	3,060,168	5,658,384	5,657,851
Financial debentures	5,507,446	2,913,689	4,185,193
Asset-backed securities	102,431	107,233	113,504
Total	<u>\$ 61,274,934</u>	<u>70,965,629</u>	<u>95,932,513</u>

Please refer to Notes 6(T) and 8 for information with regard to the repurchase conditions for, or restrictions on, held-to-maturity financial assets shown above.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(L) Financial assets securitization

During the third quarter of 2004, the Bank securitized its mortgage loans with a book value of \$5,031,192 with Deutsche Bank AG, Taipei Branch (Deutsche Bank), as Trustee, and offered security in the form of beneficiary certificates. These beneficiary certificates have a redemption period from August 10, 2004, to August 25, 2024. The other terms of these beneficiary certificates are as follows:

Class of beneficiary certificates issued	Order of principal repayment	Issue amount/ Face value	Interest Rate	Payment frequency
Class A	1 <sup>st</sup>	4,325,000	the index rate +0.25%	once a month
Class B	2 <sup>nd</sup>	250,000	the index rate +0.55%	once a month
Class C	3 <sup>rd</sup>	150,000	the index rate +0.80%	once a month
Class D	4 <sup>th</sup>	130,000	the index rate +1.25%	once a month
Class E	5 <sup>th</sup>	176,192	None	once a month

The Bank holds the Class E beneficiary certificates and retains the right to interest in excess of the amount paid to the holders of class A, B, C and D beneficiary certificates. If the mortgage loan debtors default, neither the investor nor the Trustee has the right of recourse to the Bank. The repayment of the principal of Class E beneficiary certificates is subordinate to the investors' certificates, and their value is affected by the credit risk, prepayment, and interest risk of the securitized loans.

(a) Key assumptions used in measuring retained interests

The key assumptions used in measuring the subordinated seller certificates arising from the loan securitization at the measurement date of initial recognition and as of December 31, 2013 were as follows:

	<u>December 31, 2013</u>	<u>August 10, 2004</u>
Prepayment rate (annual rate)		
Adjustable Rate Mortgage	65.00%	17.50%
Government Subsidized Mortgage	50.00%	7.00%
Weighted-average life (in years)	1.74	17.36
Expected credit default rate (annual rate)	0.96%	3.01%
Discounting rate for residual cash flows (annual rate)		
- principal	4.00%	5.70%
- interest	3.50%	2.34%

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(b) Sensitivity analysis

As of December 31, 2013, the key economic assumptions and sensitivity of the current fair value of residual cash flows with immediate 10% and 20% adverse changes in these assumptions were as follows:

	<b>Mortgage loan securitization</b>
Book value of retained interests	\$ 102,431
Weighted-average life (in years)	1.74
Prepayment rate (annual rate)	
Adjustable Rate Mortgage	65.00%
Government Subsidized Mortgage	50.00%
Impact on fair value of 10% adverse change	(720)
Impact on fair value of 20% adverse change	(1,487)
Expected credit default rate (annual rate)	0.96%
Impact on fair value of 10% adverse change	(42)
Impact on fair value of 20% adverse change	(83)

(c) Expected static pool weighted-default rate

The expected static pool weighted-default rate is equal to the expected credit default rate.

(d) Cash flows

The cash flows received from and paid to securitization trusts were as follows:

	<b>For the year ended December 31, 2013</b>	<b>For the year ended December 31, 2012</b>
Servicing fees received	\$ 1,097	1,394
Other cash flows received on retained interests	4,322	5,644
Recovery of cash reserve	326	443
Servicing advances	(3,111)	(3,882)
Recovery of servicing advances	3,342	3,485

(M) Investment under equity method — net

	<b>December 31, 2013</b>	
	<b>%</b>	<b>Book value</b>
Grand Bills Finance Corporation (original investment at \$1,010,880 thousands)	21.15	\$ 1,702,873
GCB Finance (HK) Limited (original investment at \$223,050 thousands)	100.00	319,300
Total		<b>\$ 2,022,173</b>

	<b>December 31, 2012</b>	
	<b>%</b>	<b>Book value</b>
Grand Bills Finance Corporation (original investment at \$1,010,880 thousands)	21.15	\$ 1,718,709
GCB Finance (HK) Limited (original investment at \$223,050 thousands)	100.00	337,154
Total		<b>\$ 2,055,863</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>January 1, 2012</b>	
	<b>%</b>	<b>Book value</b>
Chinatrust Forex Corporation (Note)	100.00	\$ 34,545
(original investment at PHP 51,045 thousands)		
Grand Bills Finance Corporation	21.15	1,705,255
(original investment at \$1,010,880 thousands)		
GCB Finance (HK) Limited	100.00	340,890
(original investment at \$223,050 thousands)		
Total		<b>\$ 2,080,690</b>

For the year ended December 31, 2013 and 2012, the amount of profit and loss from associates recognized under equity-method investments was as below:

	<b>For the year ended December 31, 2013</b>	<b>For the year ended December 3, 2012</b>
Chinatrust Forex Corporation (Note)	\$ -	2,057
Grand Bills Finance Corporation	71,838	76,242
GCB Finance (HK) Limited	2,797	1,502
Total	<b>\$ 74,635</b>	<b>79,801</b>

Note: Liquidated in December 2012.

The financial information of the associates of the Bank and its subsidiaries is as below:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Total assets	\$ 61,497,132	50,304,176	55,226,381
Total liabilities	53,126,423	41,840,738	46,788,275
Net assets	<b>\$ 8,370,709</b>	<b>8,463,438</b>	<b>8,438,106</b>

	<b>For the year ended December 31, 2013</b>	<b>For the year ended December 31, 2012</b>
Net revenue	<b>\$ 1,203,310</b>	<b>1,526,933</b>
Net profit after tax	<b>\$ 356,800</b>	<b>361,938</b>
Other comprehensive income	<b>\$ (172,387)</b>	<b>(31,660)</b>

(N) Other financial assets — net

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Short-term advances	\$ 621,006	1,745,212	1,318,997
Less: allowance for credit losses — short-term advances	(31,926)	(22,563)	(20,879)
Deposits pledged	438,660	437,016	215,665
Investment in debt instruments without active markets—net	-	-	242,107
Financial assets carried at cost—net	1,780,892	1,964,205	2,153,755
Non-accrual loans transferred from non-loan financial assets	114,527	144,562	180,375
Less: Allowance for credit losses—non-accrual loans transferred from non-loan financial assets	(99,004)	(116,545)	(123,884)
Operating capital of overseas branches	-	-	3,816,778
Loan held for sale	96,105	361,665	526,766
Less: Allowance for credit losses — loans held for sale	-	(48,720)	(80,640)
Others	131,119	149,496	130,423
Total	<b>\$ 3,051,379</b>	<b>4,614,328</b>	<b>8,359,463</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Financial assets carried at cost are stock investments of the Bank and its subsidiaries. Since no active quoted market is available, nor the fair value is reliably measureable, acquisition cost is therefore, adopted as the baseline for the valuation of such assets.

Please refer to Note 6(J) for information with regard to the changes of allowance for credit losses of short-term advances and non-accrual loans transferred from non-loan financial assets shown above.

Loans held for sale are a portion of creditor's rights that the Bank's sub-subsidiary CTBC Bank Corp. (USA) intended to sell. As the purpose of holding those creditor's rights has changed, these loans held for sale were evaluated using the lower-of-cost-or-market method. The Bank's sub-subsidiary CTBC Bank Corp. (USA) sold them to its parent company, CTBC Capital Corp. (CCC). The loans were held for sale by CCC and were sold to non-related parties; please refer to Note 6(AR) for more information. For the year ended December 31, 2012, CCC recognized impairment loss on loans held for sale; please refer to Note 6(AL) for more information.

The operating capital of overseas branches is the Bank's preparation funds for its Shanghai branch in Mainland China. Please refer to Note 13(C) for further information.

Please refer to Note 8 for information with regard to the restrictions on the other financial assets shown above.

(O) Premises and equipment — net

<b>December 31, 2013</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment</b>	<b>Net</b>
Land	\$ 14,140,385	-	109,949	14,030,436
Buildings	10,576,517	3,488,082	62,015	7,026,420
Transportation equipment	57,830	28,920	-	28,910
Miscellaneous equipment	4,089,532	2,405,281	-	1,684,251
Construction in progress	10,032,598	-	-	10,032,598
Prepayment for equipment	220,069	-	-	220,069
Prepayment for land and buildings	1,025,229	-	-	1,025,229
Leased premises	289,177	108,186	-	180,991
<b>Total</b>	<b>\$ 40,431,337</b>	<b>6,030,469</b>	<b>171,964</b>	<b>34,228,904</b>

<b>December 31, 2012</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment</b>	<b>Net</b>
Land	\$ 17,054,530	-	95,594	16,958,936
Buildings	13,294,246	4,636,404	54,138	8,603,704
Transportation equipment	59,247	32,328	-	26,919
Miscellaneous equipment	4,380,915	2,905,848	-	1,475,067
Construction in progress	6,460,491	-	-	6,460,491
Prepayment for equipment	15,667	-	-	15,667
Prepayment for land and buildings	1,025,229	-	-	1,025,229
Leased premises	288,361	49,526	-	238,835
<b>Total</b>	<b>\$ 42,578,686</b>	<b>7,624,106</b>	<b>149,732</b>	<b>34,804,848</b>



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>January 1, 2012</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment</b>	<b>Net</b>
Land	\$ 17,668,472	-	454,139	17,214,333
Buildings	15,346,299	6,276,018	128,896	8,941,385
Transportation equipment	96,429	65,210	-	31,219
Miscellaneous equipment	9,898,434	8,237,130	-	1,661,304
Construction in progress	3,663,945	-	-	3,663,945
Leased premises	337,907	245,038	-	92,869
<b>Total</b>	<b>\$ 47,011,486</b>	<b>14,823,396</b>	<b>583,035</b>	<b>31,605,055</b>

Changes in the cost are as below:

	<b>December 31, 2012</b>	<b>Current increase (Note 1)</b>	<b>Current decrease (Note 1)</b>	<b>Others(exchange difference)</b>	<b>December 31, 2013</b>
Land	\$ 17,054,530	493,580	3,410,353	2,628	14,140,385
Buildings	13,294,246	1,866,207	4,601,153	17,217	10,576,517
Transportation equipment	59,247	16,362	14,850	(2,929)	57,830
Miscellaneous equipment	4,380,915	851,994	1,089,838	(53,539)	4,089,532
Construction in progress	6,460,491	3,798,200	226,371	278	10,032,598
Prepayment for equipment	15,667	226,783	22,381	-	220,069
Prepayment for land and buildings	1,025,229	568,748	568,748	-	1,025,229
Leased premises	288,361	9,636	8,820	-	289,177
<b>Total</b>	<b>\$ 42,578,686</b>	<b>7,831,510</b>	<b>9,942,514</b>	<b>(36,345)</b>	<b>40,431,337</b>

	<b>January 1, 2012</b>	<b>Current increase (Note 2)</b>	<b>Current decrease (Note 2)</b>	<b>Others(exchange difference)</b>	<b>December 31, 2012</b>
Land	\$ 17,668,472	-	610,214	(3,728)	17,054,530
Buildings	15,346,299	277,299	2,308,207	(21,145)	13,294,246
Transportation equipment	96,429	10,766	49,220	1,272	59,247
Miscellaneous equipment	9,898,434	515,956	5,995,058	(38,417)	4,380,915
Construction in progress	3,663,945	2,963,818	167,038	(234)	6,460,491
Prepayment for equipment	-	17,762	2,095	-	15,667
Prepayment for land and buildings	-	1,025,229	-	-	1,025,229
Leased premises	337,907	230,230	279,776	-	288,361
<b>Total</b>	<b>\$ 47,011,486</b>	<b>5,041,060</b>	<b>9,411,608</b>	<b>(62,252)</b>	<b>42,578,686</b>

Note 1: For the year ended December 31, 2013, the increase in construction in progress was attributable to \$67,283 from other assets, while the decrease was attributable to the transfer of \$185,857 to buildings. The decline of prepayment for land and buildings was driven by the transfer of \$75,187 to buildings and \$493,561 to land. The reduction in prepayment for equipment stemmed from the transfer of \$22,381 to miscellaneous equipment. The increase in miscellaneous equipment was attributable to the transfer from other assets and construction in process amounting to \$310 and \$36,549, respectively. The respective decreases in land and buildings amounted to \$3,410,353 and \$4,334,169 were reclassified to assets held for sale.

Note 2 : For the year ended December 31, 2012, the increase in construction in progress was due to \$67,283 from other assets. Buildings were up by \$159,796, resulting from construction in progress, whereas the increase in miscellaneous equipment was driven by \$1,580 from prepayment for equipment, \$11,467 from other assets and \$7,134 from construction in progress. The reduction in prepayment for equipment amounted to \$515 was reclassified to intangible assets. The decreases in construction in process and miscellaneous equipment were attributable to the transfer of \$108 and \$47, respectively, to intangible assets.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Changes in accumulated depreciation are as below:

	December 31, 2012	Current increase	Current decrease (Note)	Others(exchange difference)	December 31, 2013
Buildings	\$ 4,636,404	505,101	1,643,433	(9,990)	3,488,082
Transportation equipment	32,328	11,525	13,493	(1,440)	28,920
Miscellaneous equipment	2,905,848	613,981	1,069,934	(44,614)	2,405,281
Leased premises	49,526	62,289	3,629	-	108,186
Total	<u>\$ 7,624,106</u>	<u>1,192,896</u>	<u>2,730,489</u>	<u>(56,044)</u>	<u>6,030,469</u>

	January 1, 2012	Current increase	Current decrease	Others(exchange difference)	December 31, 2012
Buildings	\$ 6,276,018	563,165	2,191,387	(11,392)	4,636,404
Transportation equipment	65,210	11,146	44,593	565	32,328
Miscellaneous equipment	8,237,130	649,968	5,953,662	(27,588)	2,905,848
Leased premises	245,038	67,062	262,574	-	49,526
Total	<u>\$ 14,823,396</u>	<u>1,291,341</u>	<u>8,452,216</u>	<u>(38,415)</u>	<u>7,624,106</u>

Note : The reduction in buildings included a transfer to assets held for sale amounting to \$1,421,179.

Changes in accumulated impairment are as below:

	December 31, 2012	Current increase	Current decrease	Others(exchange difference)	December 31, 2013
Land	\$ 95,594	14,355	-	-	109,949
Buildings	54,138	7,877	-	-	62,015
Total	<u>\$ 149,732</u>	<u>22,232</u>	<u>-</u>	<u>-</u>	<u>171,964</u>

	January 1, 2012	Current increase	Current decrease	Others(exchange difference)	December 31, 2012
Land	\$ 454,139	-	358,545	-	95,594
Buildings	128,896	-	74,758	-	54,138
Total	<u>\$ 583,035</u>	<u>-</u>	<u>433,303</u>	<u>-</u>	<u>149,732</u>

Please refer to Note 6(AL) for information with regard to the impairment losses of premises and equipment for the year end December 31, 2013.

The Bank plans to build an operation center in mid-Taiwan. For further information, please refer to Note 9(A).

Its Shanghai Branch signed a contract with Shanghai World Financial Center for the purchase of real estate on March 18, 2013, expecting to acquire the century building in Shanghai Pudong new district as its new operation office. From signing the agreement until the transfer of superficies, the costs are classified as buildings under premises and equipment — net. Please refer to Note 13(A) for further information.

On July 31, 2013, the Bank signed a real estate purchase agreement to acquire a land and building for new office expansion. After completing the transfer of ownership, it was categorized as land and building under property and equipment—net. Please refer to Note 13(A) for relevant information.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(P) Intangible assets — net

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Goodwill	\$ 10,385,891	10,385,891	10,385,891
Computer software	1,805,161	1,804,985	1,849,010
Others	4,126	-	-
<b>Total</b>	<b>\$ 12,195,178</b>	<b>12,190,876</b>	<b>12,234,901</b>

Goodwill of the Bank and its subsidiaries was acquired from business combination.

Changes in intangible assets were as follows:

	<b>December 31, 2012</b>	<b>Current increase (Note 1)</b>	<b>Current decrease (Note 1)</b>	<b>Others(exchange difference)</b>	<b>December 31, 2013</b>
Goodwill	\$ 10,385,891	-	-	-	10,385,891
Computer software	1,804,985	598,008	586,811	(11,021)	1,805,161
Others	-	4,556	430	-	4,126
<b>Total</b>	<b>\$ 12,190,876</b>	<b>602,564</b>	<b>587,241</b>	<b>(11,021)</b>	<b>12,195,178</b>

	<b>January 1, 2012</b>	<b>Current increase (Note 2)</b>	<b>Current decrease (Note 2)</b>	<b>Others(exchange difference)</b>	<b>December 31, 2012</b>
Goodwill	\$ 10,385,891	-	-	-	10,385,891
Computer software	1,849,010	553,223	593,901	(3,347)	1,804,985
<b>Total</b>	<b>\$ 12,234,901</b>	<b>553,223</b>	<b>593,901</b>	<b>(3,347)</b>	<b>12,190,876</b>

Note 1: For the year ended December 31, 2013, the increase included \$312,459 transferred from other assets, while the decrease included loss from disposal \$2,598.

Note 2: For the year ended December 31, 2012, the increase included \$670 transferred from premises and equipment and \$216,802 transferred from other assets, whereas the decrease included loss from disposal \$71.

(Q) Other assets — net

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Prepayments	\$ 3,196,372	4,954,968	3,984,149
Deferred charges	20,763	37,097	55,990
Foreclosed properties received — net	116,292	191,477	234,242
Temporary payments	78,023	27,420	46,765
Refundable deposits — net	2,637,281	2,597,661	4,149,303
Superficies	2,853,912	2,921,194	2,988,477
Cash surrender value of life insurance	1,570,716	1,481,000	1,490,004
Others	55,890	51,103	84,753
<b>Total</b>	<b>\$ 10,529,249</b>	<b>12,261,920</b>	<b>13,033,683</b>

In May 2006, the Bank acquired the superficies of lots 43, 43-1, 45 and 45-1 of Jingmao Section, Nankang, Taipei, from Taiwan Fertilizer Co., Ltd. for 50 years through a public tender. The acquisition cost amounted to \$3,364,140 (including business tax and other related expenses of the superficies). The rental is determined annually at the rate of 8% of the government-assessed present value. Please refer to Note 8 for information on performance guarantee deposits.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Please refer to Note 6(AL) for impairment loss and gains on reversal of impairment loss on foreclosed properties for the years ended December 31, 2013 and 2012.

(R) Deposits from Central Bank and other banks

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Deposits from Central Bank	\$ 151,062	140,734	168,660
Deposits from other banks	1,592,487	2,123,855	1,879,089
Deposits from post offices	3,746,997	4,967,002	5,904,805
Overdraft against other banks	1,131,072	3,222,712	1,122,596
Due to other banks	41,787,894	20,236,116	42,288,918
Total	<u><u>\$ 48,409,512</u></u>	<u><u>30,690,419</u></u>	<u><u>51,364,068</u></u>

(S) Due to Central Bank and other banks

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Financing from Central Bank	\$ 3,217,210	2,631,639	4,641,210
Financing from other banks	4,166,820	2,376,962	2,885,918
Total	<u><u>\$ 7,384,030</u></u>	<u><u>5,008,601</u></u>	<u><u>7,527,128</u></u>

Financing from Central Bank:

As of December 31, 2013, and December 31 and January 1, 2012, the Bank had borrowed US\$77,419 thousand, US\$90,323 thousand and US\$103,226 thousand, respectively, from the Central Bank in order to facilitate the business expansion of its overseas branches and its subsidiaries. This loan bears interest at the annual rate of 6M LIBOR. All financing will mature prior to July 26, 2019, and interest is payable semi-annually and at the maturity date.

As of December 31, 2013, the Bank borrowed US\$30,000 thousand from the Central Bank with an annual interest rate at 0.32%. The financing was due on January 2, 2014, with interest paid upon maturity.

As of January 1, 2012, the Bank borrowed US\$50,000 thousand from the Central Bank with an annual interest rate at 0.27%. The financing was due on January 3, 2012, with interest paid upon maturity.

Financing from other banks:

As of December 31, 2013 and 2012, inter-bank borrowings of the Bank's US subsidiary were US\$85,000 and \$49,600 thousands, with annual rates ranging from 0.91% to 5.62% , and due on December 31, 2020 and November 15, 2017, respectively. As of January 1, 2012 inter-bank borrowings of the Bank's US subsidiary were US \$73,000 thousands, with annual rates ranging from 4.92% to 5.62%, and mature on July 6, 2016.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(T) Securities sold under repurchase agreements

<b>December 31, 2013</b>				
<b>Assets</b>	<b>Par value</b>	<b>Selling price (Note)</b>	<b>Designated repurchase amount</b>	<b>Designated repurchase date</b>
Financial assets measured at fair value through profit or loss	\$ 7,206,700	7,199,025	7,199,382	Before February 7, 2014
Available-for-sale financial assets—net	42,331,857	43,774,699	43,792,826	Before March 25, 2014
Held-to-maturity financial assets—net	9,798,700	10,064,470	10,072,070	Before July 3, 2014
<b>Total</b>	<b>\$ 59,337,257</b>	<b>61,038,194</b>	<b>61,064,278</b>	

<b>December 31, 2012</b>				
<b>Assets</b>	<b>Par value</b>	<b>Selling price (Note)</b>	<b>Designated repurchase amount</b>	<b>Designated repurchase date</b>
Financial assets measured at fair value through profit or loss	\$ 14,109,000	14,086,011	14,093,980	Before February 22, 2013
Available-for-sale financial assets—net	28,714,280	30,648,478	30,665,242	Before April 12, 2013
Held-to-maturity financial assets—net	15,080,400	16,043,350	16,053,903	Before June 27, 2013
<b>Total</b>	<b>\$ 57,903,680</b>	<b>60,777,839</b>	<b>60,813,125</b>	

<b>January 1, 2012</b>				
<b>Assets</b>	<b>Par value</b>	<b>Selling price (Note)</b>	<b>Designated repurchase amount</b>	<b>Designated repurchase date</b>
Financial assets measured at fair value through profit or loss	\$ 19,191,000	19,183,905	19,192,732	Before February 23, 2012
Available-for-sale financial assets—net	36,322,480	38,788,080	38,799,335	Before August 31, 2012
Held-to-maturity financial assets—net	16,422,000	17,287,796	17,301,333	Before August 7, 2012
<b>Total</b>	<b>\$ 71,935,480</b>	<b>75,259,781</b>	<b>75,293,400</b>	

Note: Recognized under securities sold under repurchase agreement.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(U) Payables**

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Accounts payable	\$ 4,615,910	10,327,768	5,238,249
Accounts payable factoring	5,773,424	7,606,677	8,637,762
Accrued expenses	12,359,287	10,287,060	9,421,055
Interest payable	2,929,143	3,045,208	2,864,030
Acceptances payable	4,806,111	5,252,898	8,758,016
Collection payable	1,954,432	2,214,230	1,336,687
Other tax payable	330,040	306,345	289,919
Dividends and bonuses payable	98,726	101,651	100,784
Checks for clearance	2,589,013	4,596,531	4,040,287
Interbank clearing payable	409,443	361,439	306,055
Non-discretionary monetary trust payable	5,857	44,187	283,393
Miscellaneous lottery accounts payable	5,838,647	7,699,598	6,131,254
Construction retainage received	714,081	407,796	146,915
Online accounts payable	330,243	394,930	1,985,689
Fees payable to trustee for asset securitization	577,732	577,754	573,038
Other payables	2,200,536	3,077,276	2,135,861
<b>Total</b>	<b>\$ 45,532,625</b>	<b>56,301,348</b>	<b>52,248,994</b>

**(V) Deposits and remittances**

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
NTD deposits			
Checking accounts	\$ 8,190,254	8,861,185	8,173,642
Demand deposits			
Demand deposits	138,713,639	121,685,618	118,195,044
Demand savings deposits	483,058,632	443,010,179	410,409,914
Public treasury deposits	7,713,523	6,448,488	6,075,995
Subtotal of demand deposits	629,485,794	571,144,285	534,680,953
Time deposits			
Time deposits	201,322,073	196,763,617	221,796,081
Time savings deposits	313,555,393	290,170,300	270,669,117
Negotiable certificates of deposit	1,100,800	844,400	1,231,200
Public treasury deposits	10,975,874	24,058,252	17,183,729
Others	21,893,000	23,200,000	27,462,000
Subtotal of time deposits	548,847,140	535,036,569	538,342,127
Subtotal of NTD deposits	1,186,523,188	1,115,042,039	1,081,196,722
Foreign currency deposits	543,900,729	409,520,042	377,398,321
Stored value cards	203	275	49,202
Remittances under custody	53,327	141,950	57,840
Remittances outstanding	691,878	411,342	825,377
<b>Total</b>	<b>\$ 1,731,169,325</b>	<b>1,525,115,648</b>	<b>1,459,527,462</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(W) Financial debentures

Bonds	Terms of transactions			Bond issued	
	Issue date	Maturity date	Interest rate	Type	Amount
					December 31, 2013
5.625% Step-up Callable Perpetual Subordinated Notes	03/17/2005	N/A	5.625%; an interest is payable semi-annually; if redemption right is not exercised 10 years after the issue date, the interest rate will be USD 6M LIBOR + 1.86%.	Perpetual accumulated subordinated financial debentures	\$ 14,976,465
2005-5	11/29/2005	N/A	A=3.35%, B=3.35%; if redemption right is not exercised 10 years after the issue date, the interest rate will be 90 days CP+1.85% for A and 4.35% for B.	Perpetual non-accumulated subordinated financial debentures	12,000,000
2006-1	05/17/2006	05/17/2016	2.14%	Unsecured financial debentures	3,100,000
2007-3	12/14/2007	12/14/2014	The prime rate plus 0.40% (Note)	Unsecured subordinated financial debentures	1,500,000
2007-4	12/18/2007	12/18/2014	3.05%	"	2,000,000
2008-1	04/10/2008	04/10/2023	3.49%	"	2,000,000
2008-2	04/25/2008	N/A	3.60%; if redemption right is not exercised 7 years after the issue date, the interest rate will be 4.60%.	Perpetual accumulated subordinated financial debentures	700,000
2008-3	04/25/2008	04/25/2015	A=3.10%, B=3.00%.	Unsecured subordinated financial debentures	3,350,000
2011-1	09/27/2011	09/27/2021	A=1.80%, B=1.95%. From the 4th year after the issue date, the interest rate will be the prime rate plus 0.55% (Note)	"	12,900,000
2013-1	03/12/2013	03/12/2016	2.90%	Unsecured financial debentures	4,947,000
			Adjustment for fair value increase of hedged transactions		812,733
			Unamortized discount		(16,249)
					<u><u>\$ 58,269,949</u></u>



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Bonds	Terms of transactions			Bond issued	
	Issue date	Maturity date	Interest rate	Type	Amount
					December 31, 2012
5.625% Step-up Callable Perpetual Subordinated Notes	03/17/2005	N/A	5.625%; an interest is payable semi-annually; if redemption right is not exercised 10 years after the issue date, the interest rate will be USD 6M LIBOR + 1.86%.	Perpetual accumulated subordinated financial debentures	\$ 14,568,756
2005-5	11/29/2005	N/A	A=3.35%, B=3.35%; if redemption right is not exercised 10 years after the issue date, the interest rate will be 90 days CP+1.85% for A and 4.35% for B.	Perpetual non-accumulated subordinated financial debentures	12,000,000
2006-1	05/17/2006	05/17/2016	2.14%	Unsecured financial debentures	3,100,000
2007-3	12/14/2007	12/14/2014	The prime rate plus 0.40% (Note)	Unsecured subordinated financial debentures	1,500,000
2007-4	12/18/2007	12/18/2014	3.05%	"	2,000,000
2008-1	04/10/2008	04/10/2023	3.49%	"	2,000,000
2008-2	04/25/2008	N/A	3.60%; if redemption right is not exercised 7 years after the issue date, the interest rate will be 4.60%.	Perpetual accumulated subordinated financial debentures	700,000
2008-3	04/25/2008	04/25/2015	A=3.10%, B=3.00%.	Unsecured subordinated financial debentures	3,350,000
2008-4	04/25/2008	10/25/2013	The single coupon rate is Bank of Taiwan's quoted floating interest rate for 3-year time deposit plus 0.28%, simple interest is accrued annually.	"	450,000
2011-1	09/27/2011	09/27/2021	A=1.80%, B=1.95%. From the 4th year after the issue date, the interest rate will be the prime rate plus 0.55% (Note)	"	12,900,000
			Adjustment for fair value increase of hedged transactions		1,581,216
			Unamortized discount		(28,340)
					<u>\$ 54,121,632</u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Bonds	Terms of transactions			Bond issued	
	Issue date	Maturity date	Interest rate	Type	Amount
					January 1, 2012
5.625% Step-up Callable Perpetual Subordinated Notes	03/17/2005	N/A	5.625%; an interest is payable semi-annually; if redemption right is not exercised 10 years after the issue date, the interest rate will be USD 6M LIBOR + 1.86%.	Perpetual accumulated subordinated financial debentures	\$ 15,143,145
2005-5	11/29/2005	N/A	A=3.35%, B=3.35%; if redemption right is not exercised 10 years after the issue date, the interest rate will be 90 days CP+1.85% for A and 4.35% for B.	Perpetual non-accumulated subordinated financial debentures	12,000,000
2006-1	05/17/2006	05/17/2016	2.14%	Unsecured financial debentures	3,100,000
2007-3	12/14/2007	12/14/2014	The prime rate plus 0.40% (Note)	Unsecured subordinated financial debentures	1,500,000
2007-4	12/18/2007	12/18/2014	3.05%	"	2,000,000
2008-1	04/10/2008	04/10/2023	3.49%	"	2,000,000
2008-2	04/25/2008	N/A	3.60%; if redemption right is not exercised 7 years after the issue date, the interest rate will be 4.60%.	Perpetual accumulated subordinated financial debentures	700,000
2008-3	04/25/2008	04/25/2015	A=3.10%, B=3.00%.	Unsecured subordinated financial debentures	3,350,000
2008-4	04/25/2008	10/25/2013	The single coupon rate is Bank of Taiwan's quoted floating interest rate for 3-year time deposit plus 0.28%, simple interest is accrued annually.	"	450,000
2011-1	09/27/2011	09/27/2021	A=1.80%, B=1.95%. From the 4th year after the issue date, the interest rate will be the prime rate plus 0.55% (Note) Adjustment for fair value increase of hedged transactions Unamortized discount	"	12,900,000  2,082,063  (42,826)
					<u><u>\$ 55,182,382</u></u>

Note: The prime rate is based on page code 6165 of Reuters (original: Associated Press),  
the fixed interest rate of 90-day CP/BA at 11:00 am on the interest reset date.

Please refer to Note 6(E) for the information on the hedging of bonds shown above.

(X) Other financial liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Appropriated loan funds	\$ 16,763	45,000	71,325
Lease payable	183,821	239,648	60,688
Structured commodity principal	15,456,071	22,519,505	19,037,736
Others	-	12,884	4,730
Total	<u><u>\$ 15,656,655</u></u>	<u><u>22,817,037</u></u>	<u><u>19,174,479</u></u>

(Y) Provisions

	December 31, 2013	December 31, 2012	January 1, 2012
Settlement compensation provision	\$ 1,027,476	1,097,467	1,206,411
Employee benefits provision	3,825,830	4,025,211	3,576,352
Guarantee reserve	287,508	286,273	305,903
Other provisions	162	178	32,957
Total	<u><u>\$ 5,140,976</u></u>	<u><u>5,409,129</u></u>	<u><u>5,121,623</u></u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Settlement compensation provision, which was the estimated amount in compliance with IAS 37, was approved by the board of directors to be appropriated for settlement compensation of structured notes, and the Bank actively negotiated with the investors.

(Z) Other liabilities

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Amount received in advance	\$ 1,018,657	544,320	338,219
Payable in custody	968,121	748,957	364,016
Deferred income	705,570	949,708	1,025,033
Guarantee deposits received	1,051,550	2,132,012	1,846,826
Temporary receipt	1,054,366	1,286,779	1,127,441
Provision for the lottery prize	966,913	1,671,020	841,828
Others	193,118	222,598	196,741
<b>Total</b>	<b>\$ 5,958,295</b>	<b>7,555,394</b>	<b>5,740,104</b>

(AA) Employee benefits

(a) Defined contribution plan

The Bank's defined contribution plan follows the Labor Pension Act of the R.O.C. and makes monthly cash contributions to the employees' individual pension accounts at the Bureau of Labor Insurance at the rate of 6% of the employees' monthly salary. Under this plan, the Bank has no legal or constructive obligation to make other payments after the Bank makes the fixed amount of contribution to the Bureau of Labor Insurance.

For the years ended December 31, 2013 and 2012, the pension expense under defined contribution plan of the Bank and its subsidiaries amounted \$405,099 and \$377,021, respectively, and were contributed to the Bureau of Labor Insurance or labor agencies designated by local authorities in the case of overseas units.

(b) Employee benefits provision

Employee benefits provision recognized by the Bank in the balance sheet was as follows:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Defined benefits plan	\$ 3,477,068	3,682,497	3,313,806
Retiree deposits with favorable rates and other post-employment benefits	211,315	209,997	157,131
<b>Total</b>	<b>\$ 3,688,383</b>	<b>3,892,494</b>	<b>3,470,937</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(1) Defined benefits plan

The reconciliation between present value of the Bank's defined benefits obligation and fair value of defined benefits plan assets was as below:

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefits obligation	\$ 8,594,323	8,755,132	8,297,390
Less: Fair value of defined benefits plan assets	(5,117,255)	(5,072,635)	(4,983,584)
Subtotal	<u>3,477,068</u>	<u>3,682,497</u>	<u>3,313,806</u>
Unamortized balance of actuarial gains and losses	-	-	-
Liability recognized in consolidated balance sheet	<u><u>\$ 3,477,068</u></u>	<u><u>3,682,497</u></u>	<u><u>3,313,806</u></u>

The Bank's defined benefits plan contributes to designated depository account with Bank of Taiwan. Payments of pension benefits to employees who are covered by the Labor Standards Act are calculated based on the employee's average monthly salary for the last 6 months prior to approved retirement and base point (b.p.) entitlement based on years of service.

A. Components of plan assets

According to Regulations for Revenues, Expenditures Safeguard and Utilization of the Labor Retirement Fund, with regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statement shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Please refer to the website of Council of Labor Affairs for information on labor pension fund assets utilization including contribution rate and earnings rate provided by Bank of Taiwan and fund asset allocation provided by Council of Labor Affairs.

B. Expense recognized in profit and loss

For the years ended December 31, 2013 and 2012, expense recognized in profit and loss amounted to \$230,239 and \$250,990, respectively.

C. Movements in present value of the defined benefits obligation

The movements in present value of defined benefits obligation for the Bank for the year ended December 31, 2013 and 2012 were as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Defined benefits obligation at January	\$ 8,755,132	8,297,390
Current service costs	175,079	187,400
Current interest cost	131,327	145,203
Payment	(490,498)	(352,069)
Actuarial losses	23,283	477,208
Defined benefits obligation at December 31	<u><u>\$ 8,594,323</u></u>	<u><u>8,755,132</u></u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**D. Movements in fair value of defined benefit plan assets**

The movements in fair value of defined benefit plan assets for the Bank for the year ended December 31, 2013 and 2012 were as follows:

	<b>For the year ended December 31, 2013</b>	<b>For the year ended December 31, 2012</b>
Plan assets at January 1	\$ 5,072,635	4,983,584
Contributions made	401,322	396,206
Benefits paid by the plan	(490,498)	(352,069)
Expected return on plan assets	76,090	87,212
Actuarial gains (losses)	57,706	(42,298)
Plan assets at December 31	<b>\$ 5,117,255</b>	<b>5,072,635</b>

**E. Actuarial gains (losses) recognized in other comprehensive income**

Actuarial (losses) gains recognized by the Bank in the other comprehensive income for the year ended December 31, 2013 and 2012 were as follows:

	<b>For the year ended December 31, 2013</b>	<b>For the year ended December 31, 2012</b>
Cumulative amount at January 1	\$ (519,506)	-
Recognized during the period	34,423	(519,506)
Cumulative amount at December 31	<b>\$ (485,083)</b>	<b>(519,506)</b>

**F. Primary actuarial assumptions**

	<b>For the year ended December 31, 2013</b>	<b>For the year ended December 31, 2012</b>
Defined benefits plan discount rate	1.90%	1.50%
Expected rate of return on plan assets	1.90%	1.50%
Incremental rate of future compensation levels	3.00%	3.00%

**G. Historical information for adjustment based on experience**

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Present value of defined benefits obligation	\$ 8,594,323	8,755,132	8,297,390
Net fair value of plan assets	5,117,255	5,072,635	4,983,584
Net liability of defined benefits obligation	<b>\$ 3,477,068</b>	<b>3,682,497</b>	<b>3,313,806</b>
Adjustment based on experience to present value of defined benefits plan	<b>\$ 284,044</b>	<b>297,902</b>	-
Adjustment based on experience to net fair value of plan assets	<b>\$ (57,706)</b>	<b>42,298</b>	-
Changes in actuarial assumptions of plan liability	<b>\$ (260,761)</b>	<b>179,306</b>	-

**H. When computing the present value of defined benefits obligation, the Bank should ascertain and evaluate the actuarial assumptions on the balance sheet date, including the discount rate and future salary fluctuation. Any changes in actuarial assumptions can lead to a significant effect on the Bank's balance of defined benefits obligation.**

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The present value of the Bank's defined benefits obligation was \$8,594,323 for the period ended December 31, 2013. If the applied discount rate is increased or decreased at 0.25%, the present value of the Bank's defined benefits obligation would decrease \$156,715 or increase \$161,496.

(2) Retiree deposits with favorable rates and other post-employment benefits

The reconciliation between present value of the Bank's defined benefits obligation and fair value of defined benefits plan assets was as below:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Present value of defined benefits obligation	\$ 211,315	209,997	157,131
Less: fair value of defined benefits plan assets	-	-	-
Subtotal	<u>211,315</u>	<u>209,997</u>	<u>157,131</u>
Unamortized actuarial gains and losses	-	-	-
Liabilities recognized in consolidated balance sheet	<u><u>\$ 211,315</u></u>	<u><u>209,997</u></u>	<u><u>157,131</u></u>

The Bank's obligation to grant retirees—including current employees retiring in the future—fixed-amount deposits with favorable rates is based on the Bank's Regulations for Subsidizing the Retiree Benefits.

A. Expense recognized in profit and loss

For the years ended December 31, 2013 and 2012, expense recognized in profit and loss by the Bank amounted to \$18,890 and \$22,103, respectively.

B. Movements in present value of the defined benefits obligation

The movements in present value of defined benefits obligation for the Bank for the year ended December 31, 2013 and 2012 were as follows:

	<u>For the yearended December 31, 2013</u>	<u>For the year ended December 31, 2012</u>
Defined benefits obligation at January 1	\$ 209,997	157,131
Current interest cost	6,226	4,789
Contributions made	(13,363)	(8,534)
Past service cost	12,664	17,314
Actuarial (gains) losses	(4,209)	39,297
Defined benefits obligation at December 31	<u><u>\$ 211,315</u></u>	<u><u>209,997</u></u>

C. Actuarial gains (losses) recognized in other comprehensive income

Actuarial (losses) gains recognized by the Bank in the other comprehensive income for the year ended December 31, 2013 and 2012 were as follows:

	<u>For the year ended December 31, 2013</u>	<u>For the year ended December 31, 2012</u>
Cumulative amount at January 1	\$ (39,297)	-
Recognized during the period	4,209	(39,297)
Cumulative amount at December 31	<u><u>\$ (35,088)</u></u>	<u><u>(39,297)</u></u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**D. Main actuarial assumptions**

	<b>For the year ended December 31, 2013</b>		<b>For the year ended December 31, 2012</b>	
	<b>Favorable rates for employee deposits</b>	<b>Other post- employment benefits</b>	<b>Favorable rates for employee deposits</b>	<b>Other post- employment benefits</b>
Discount rate	4.00%	2.00%	4.00%	1.75%
Expected rate of return on deposited fund	2.00%	2.00%	2.00%	1.75%
Yearly rate of decrease on account balance/utilization rate on subsidy for health examination and social networking	1.50%	31%~69%	1.50%	34%~70%
Probability of future changes in favorable rates deposits scheme	50.00%	- %	50.00%	- %

**E. Historical information for adjustment based on experience**

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Present value of defined benefits obligation	\$ 211,315	209,997	157,131
Net fair value of plan assets	-	-	-
Net liability of defined benefits obligation	<b>\$ 211,315</b>	<b>209,997</b>	<b>157,131</b>
Adjustment based on experience to present value of defined benefits plan	<b>\$ 2,904</b>	<b>39,297</b>	-
Adjustment based on experience to net fair value of plan assets	<b>\$ -</b>	<b>-</b>	<b>-</b>

- F. When computing the present value of defined benefits obligation, the Bank should ascertain and evaluate the actuarial assumptions on the balance sheet date, including the discount rate and future salary fluctuation. Any changes in actuarial assumptions can lead to a significant effect on the Bank's balance of defined benefits obligation.

The present value of the Bank's employee deposits with favorable rates and other post-employment benefits were \$211,315 for the period ended December 31, 2013. If the applied discount rate is increased or decreased at 0.25%, the present value of the Bank's defined benefits obligation would decrease \$6,462 or increase \$6,813.

**(3) Defined benefits plan of overseas branches and subsidiaries**

Defined benefits plan of overseas branches and subsidiaries recognized in consolidated balance sheets were as below:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>January 1, 2012</b>
Defined benefits plan	\$ 137,447	132,717	105,415

For the years ended December 31, 2013 and 2012, expense recognized by overseas branches and subsidiaries in profit and loss amounted to \$89,303 and \$123,843, respectively.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For the year ended December 31, 2013, the overseas subsidiaries' actuarial losses recognized under other comprehensive income was \$38,446.

(AB) Income tax

(a) Income tax

For the years ended December 31, 2013 and 2012, the income tax (expenses) benefits and related accounts were as follows:

	<b>For the year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Current income tax expenses	\$ (3,318,485)	(3,005,341)
Deferred income tax benefits (expenses)	3,421,405	(181,341)
10% surtax on undistributed earnings	-	(48)
Income tax benefit (expenses)	<b>\$ 102,920</b>	<b>(3,186,730)</b>

For the years ended December 31, 2013 and 2012, the income tax benefit recognized under other comprehensive income were as follows:

	<b>For the year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Exchange differences of overseas subsidiaries' financial reports translation	\$ 213,346	112,141
Defined benefit plan actuarial (losses) gains	(6,567)	94,997
Total	<b>\$ 206,779</b>	<b>207,138</b>

The reconciliations of consolidated income tax benefit (expenses) and net income before tax were as below:

	<b>For the year ended December 31, 2013</b>	<b>For the year ended December 31, 2012</b>
Net income	\$ 18,792,425	18,561,989
Income tax benefit ( expenses)	102,920	(3,186,730)
Net income before income tax	18,689,505	21,748,719
Straight income tax	(3,974,177)	(4,086,843)
Effects of foreign and domestic tax rate spread	(243,408)	(230,409)
Tax-exempt income	1,236,218	993,066
(Under) over estimate of prior year's income tax	(37,850)	63,335
10% surtax on undistributed earnings	-	(48)
Others	3,122,137	74,169
Total	<b>\$ 102,920</b>	<b>(3,186,730)</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(b) Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

The movements of deferred tax assets and liabilities for the year ended December 31, 2013 and 2012 were as follows:

	For the year ended December 31, 2013				
	Beginning Balance	Recognize in profit and loss	Recognize in other comprehensive income	Others	Ending Balance
Temporary difference					
Proportion of gains (losses) recognized from the investments in associates and joint ventures under equity method	\$ 647,795	(534,232)	-	-	113,563
Provision for foreign investment losses	(365,277)	365,277	-	-	-
Unrealized gains (losses) on foreign exchange and derivative financial instruments	41,264	(36,286)	-	(5,740)	(762)
Allowance for credit losses	792,808	560,258	-	14,215	1,367,281
Foreclosed properties received	197	(197)	-	-	-
Impairment losses on assets	9,203	1,340	-	-	10,543
Employee benefits liability	566,727	(30,045)	-	22,834	559,516
Settlement compensation provision	186,570	(11,899)	-	-	174,671
Exchange differences of overseas subsidiaries' financial reports translation	421,992	-	213,346	-	635,338
Defined benefit plan actuarial gains (losses)	94,997	-	(6,567)	-	88,430
Loss carryforward benefits and others	(389,180)	3,107,189	-	(27,558)	2,690,451
<b>Deferred tax assets (liabilities)- net</b>	<b>\$ 2,007,096</b>	<b>3,421,405</b>	<b>206,779</b>	<b>3,751</b>	<b>5,639,031</b>
Information disclosed in balance sheet :					
Deferred tax income assets-net	\$ 2,648,876				5,911,307
Deferred tax liabilities	(641,780)				(272,276)
<b>Total</b>	<b>\$ 2,007,096</b>				<b>5,639,031</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For the year ended December 31, 2012					
	Beginning Balance	Recognize in profit and loss	Recognize in other comprehensive income	Others	Ending Balance
Temporary difference					
Proportion of gains (losses) recognized from the investments in associates and joint ventures under equity method	\$ 720,679	(72,884)	-	-	647,795
Provision for foreign investment losses	(365,277)	-	-	-	(365,277)
Unrealized gains (losses) on foreign exchange and derivative financial instruments	56,048	(11,150)	-	(3,634)	41,264
Allowance for credit losses	697,961	147,065	-	(52,218)	792,808
Foreclosed properties received	10,142	(9,945)	-	-	197
Impairment losses on assets	29,188	(19,985)	-	-	9,203
Employee benefits liability	590,060	(14,686)	-	(8,647)	566,727
Settlement compensation provision	205,090	(18,520)	-	-	186,570
Exchange differences of overseas subsidiaries' financial reports translation	309,851	-	112,141	-	421,992
Defined benefit plan actuarial gains	-	-	94,997	-	94,997
Loss carryforward benefits and others	(256,799)	(181,236)	-	48,855	(389,180)
<b>Deferred tax assets (liabilities)- net</b>	<b>\$ 1,996,943</b>	<b>(181,341)</b>	<b>207,138</b>	<b>(15,644)</b>	<b>2,007,096</b>
Information disclosed in balance sheet :					
Deferred tax income assets-net	\$ 2,532,164				2,648,876
Deferred tax liabilities	(535,221)				(641,780)
<b>Total</b>	<b>\$ 1,996,943</b>				<b>2,007,096</b>

(c) The Bank's income tax returns examination, application for reexamination, and appeal are as below:

	Latest year of examination	Result of examination
CTBC Bank Co., Ltd.	2008	Before the end of statutory period, which is 30 days after the receipt of Notice of Assessment, the Bank would determine whether to apply for reexamination of income tax for the year 2008 or not. The effect on income tax will be recorded with proper accounting treatment after the end of administrative relief.
Chinatrust Bills Finance Corp.	2007	An agreement was reached with the National Tax Administration to receive a refund equal to 60% of the withholding taxes on bond interest income that was attributed to the preceding bondholders, and the effect on income tax was recorded with proper accounting treatment.
	Year	Re-examination
CTBC Bank Co., Ltd.	2005	Amortization of goodwill and interest income
	2006	Amortization of goodwill, interest income, and other expenses
	2007	Amortization of goodwill and interest income
Chinatrust Bills Finance Corp.	2005~2007	Interest income

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<u>Year</u>	<u>Appeal</u>
CTBC Bank Co., Ltd.	2003	Amortization of goodwill
	2004	Amortization of goodwill and interest income

(AC) Imputation credit account

(a) Imputation credit account balance	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
	<u>\$ 4,835</u>	<u>123,849</u>	<u>130,550</u>

(b) Tax deduction ratio for earnings distribution

	<u>For the year ended December 31, 2012</u>	<u>For the year ended December 31, 2011</u>
Cash dividends	<u>0.82%</u>	<u>0.78%</u>
Stock dividends	<u>0.82%</u>	<u>- %</u>

All the ending balance of undistributed earnings incurred after 1998.

- (c) The above imputation calculation is in accordance with Tax Ruling No. 10204562810 issued by the MOF on October 17, 2013.

(AD) Capital stock, capital surplus, and other items in stockholders' equity.

(a) Capital stock

As of December 31, 2013, the Bank's authorized capital was \$80,000,000, representing 8,000,000 thousand common shares with par value at NTD 10 per share, and paid-in capital for common stock was \$78,622,897, with 7,862,290 thousand common shares issued.

On May 24, 2013, the Bank's board of directors, on behalf of stockholders, decided a capital increase of 325,152 thousand shares from retained earnings which amounted to \$3,251,521, with August 6, 2013 as its baseline for capital increase.

(b) Capital surplus

The components and sources of capital surplus were as follows:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Additional paid-in capital—stock	\$ 16,000,568	16,000,568	16,000,568
Share-based payment transactions	1,184,264	1,184,264	891,573
Others	(2,773)	(2,773)	-
Total	<u>\$ 17,182,059</u>	<u>17,182,059</u>	<u>16,892,141</u>

In compliance with the Company Act, capital surplus can only be used to offset a deficit when surplus reserve is not sufficient to offset losses or to be distributed by issuing new shares or by cash pursuant to a resolution to be adopted by a shareholders' meeting as required in Article 241, Paragraph 1 of the Company Act. Furthermore, according to Article 72-1, Paragraph 1 of the Regulations Governing the Offering and Issuance of

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Securities by Securities Issuers, the amount of capital surplus to be used to increase capital shall not exceed 10% of total paid-in capital. The capital surplus arising from a capital increase can be capitalized only in the following fiscal year after being registered by the Company with the competent authority for approval.

A resolution of the Bank's parent company, CTBC Financial Holding Co., Ltd., to raise capital by issuing 715,000 thousand new shares was approved by the board of directors on November 25, 2011. In compliance with Article 267, Paragraph 1 of the Company Act, the parent company reserved 10% of the new shares for the employees of the parent company and its subsidiaries to purchase, among which 62,248 thousand shares are reserved for employees of the Bank. The Bank recognized both personnel expenses and capital surplus amounting to \$292,691 in February 2012.

(c) Other items in stockholders' equity

Changes in the Bank's other items in stockholders' equity were as below:

	Unrealized (losses) gains on available-for-sale financial assets	Exchange differences of overseas subsidiaries' financial reports translation	Total
January 1, 2013	\$ (94,351)	(3,397,351)	(3,491,702)
Available-for-sale financial assets			
— net			
— Valuation adjustment	1,066,587	-	1,066,587
— Realized amount	(1,396,024)	-	(1,396,024)
Foreign currency translation difference			
— Exchange difference	-	(484,830)	(484,830)
— Gains on effective hedging instrument	-	(236,915)	(236,915)
Proportionate share of other comprehensive income from associates under equity method			
— Recognized amount	(66,018)	-	(66,018)
December 31, 2013	<u>\$ (489,806)</u>	<u>(4,119,096)</u>	<u>(4,608,902)</u>
	Unrealized (losses) gains on available-for-sale financial assets	Exchange differences of overseas subsidiaries' financial reports translation	Total
January 1, 2012	\$ (1,770,221)	(2,238,369)	(4,008,590)
Available-for-sale financial assets			
— net			
— Valuation adjustment	2,654,966	-	2,654,966
— Realized amount	(980,448)	-	(980,448)
Foreign currency translation difference			
— Exchange difference	-	(1,507,740)	(1,507,740)
— Gains on effective hedging instrument	-	348,758	348,758
Proportionate share of other comprehensive income from associates under equity method			
— Recognized amount	1,352	-	1,352
December 31, 2012	<u>\$ (94,351)</u>	<u>(3,397,351)</u>	<u>(3,491,702)</u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AE) Earnings distribution and dividend policy

As a subsidiary of CTBC Financial Holding Co., Ltd., the Bank is required to fulfill the operating fund demands of the parent company and to maintain its own capital adequacy ratio. Therefore, common stock dividends and bonuses are generally distributed as cash dividends. The Bank adopts a constant and balanced dividend policy through annual common stock dividends and distribution of bonuses.

The above-mentioned methodology is merely a guideline used to select an appropriate dividend policy. In consideration of current operations and capital budget planning for the next year, an appropriate dividend distribution ratio is selected.

Annual earnings, if any, are used to pay taxes, to make certain adjustments in accordance with financial accounting standards, and to offset cumulative losses. Then 30% of the remaining earnings is appropriated as legal reserve. Before the legal reserve balance reaches an amount equal to total paid-in capital, cash dividends are limited to 15% of total paid-in capital. When the legal reserve balance reaches an amount equal to total paid-in capital, or satisfies the Article 50, paragraph 2 of the Banking Law, if the bank is sound in both its finance and business operations and has set aside legal reserve in compliance with the Company Act, the restrictions stipulated in the preceding paragraph shall not apply.

After the appropriation of legal reserve and special reserve according to law or regulation, the total amount of employee bonuses ranges from 0.01% to 0.05% of the remaining balance. Any additional distribution of the remaining amount after distribution plus the beginning balance of undistributed retained earnings will be proposed by the board of directors with a resolution approved by the board of directors on behalf of stockholders during a shareholders' meeting.

In years when the Bank makes a profit without violating Article 50 of the Banking Law, at least 10% of dividends will be appropriated and distributed in cash.

Distribution of employee bonuses and the percentage actually distributed within the range of appropriation mentioned previously are subject to resolutions by the board of directors.

A resolution on 2012 earnings distribution of the Bank was approved by the board of directors on behalf of shareholders on May 24, 2013, and the cash dividend, capital increase through capitalization of retained earnings, and distribution of employee bonuses amounted to \$11,304,952, \$3,251,521, and \$6,440, respectively. However, the distribution of employee bonuses which was disclosed in the financial report of 2012 amounted to \$6,440. The difference amounting to \$198 NT dollars was regarded as a change in accounting estimate and recognized in profit and loss of year 2013.

A resolution on 2011 earnings distribution of the Bank was approved by the board of directors on behalf of stockholders on May 24, 2012, and the distribution of employee bonuses amounted to \$5,018. Since the estimate recognized in the financial report of 2011 was \$5,317, the opening balance \$299 was regarded as change of accounting estimates and reflected in the income statement as profit in 2012.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For year ended December 31, 2013, employee bonuses were estimated amounting to \$3,218. Estimation of the fair value of employee bonuses is recognized as current-period operating expenses based on the Bank's net income after tax minus an appropriate reserve at the end of the accounting period multiplied by the most appropriate estimate set by the Bank's articles of incorporation. However, if later the actual allocation amount pursuant to a resolution of the Bank's board of directors on behalf of stockholders is different from the estimated number, the difference would be recognized in the profit or loss of the next year.

Relevant information about employee bonuses approved by the board of directors on behalf of stockholders is available on Market Observation Post System or other sites.

(AF) Share based payment transactions

For years ended December 31, 2013 and 2012, the Bank and its subsidiaries had set out the measurement principles and specific requirements for the share-based payment transactions as below:

	<b>Management stock appreciation rights plan for the years</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Grant date	January 26, 2011	January 13, 2012	February 5, 2013
Grant number	100,445	93,583	139,469
Exercise period	2013.01.01~2013.12.31	2014.12.31	2015.12.31
Exercise price at grant date	23.63	19.05	16.69

The Bank and its subsidiaries implement the above plan via cash settlements, yet absentee and resigned employees' stock appreciation rights will be deemed abandoned and forfeited.

Disclosures for the Bank and its subsidiaries' Employee Stock Appreciation Rights Plan (SARs):

	<b>For the year ended December 31, 2013</b>					
	<b>Management stock appreciation rights plan for the years</b>					
	<b>2010</b>		<b>2011</b>		<b>2012</b>	
	<b>Number</b>	<b>Weighted-average exercise price</b>	<b>Number</b>	<b>Weighted-average exercise price</b>	<b>Number</b>	<b>Weighted-average exercise price</b>
Outstanding at the beginning of the period	109,640	16.93	98,654	15.04	139,469	14.82
Granted during the period	12,356	16.93	12,410	15.04	17,606	14.82
Forfeited during the period	1,591	16.93	1,872	15.04	1,375	14.82
Exercised during the period	120,405	16.93	3,775	15.04	3,997	14.82
Expired during the period	-	16.93	-	15.04	-	14.82
Outstanding at the end of the period	-	16.93	105,417	15.04	151,703	14.82
Exercisable at the end of the period	-	16.93	-	15.04	-	14.82



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>For the year ended December 31, 2012</b>				
<b>Management stock appreciation rights plan for the years</b>				
	<b>2010</b>		<b>2011</b>	
	<b>Number</b>	<b>Weighted- average exercise price</b>	<b>Number</b>	<b>Weighted- average exercise price</b>
Outstanding at the beginning of the period	105,446	19.07	93,583	16.94
Granted during the period	15,307	19.07	10,931	16.94
Forfeited during the period	7,936	19.07	2,746	16.94
Exercised during the period	3,177	19.07	3,114	16.94
Expired during the period	-	19.07	-	16.94
Outstanding at the end of the period	109,640	19.07	98,654	16.94
Exercisable at the end of the period	-	19.07	-	16.94

For the years ended December 31, 2013, the weighted-average stock prices executed under SARs for 2010, 2011 and 2012 were \$19.60, \$19.42 and \$19.68, respectively.

Up to December 31, 2013, the weighted-average remaining durations of outstanding shares under SARs for 2011, and 2012 were 1 and 2 years, respectively.

On January 22, 2014, the board of directors of the Bank passed the management stock appreciation rights plan for the year 2013, which granted employees 192,606 units of employee stock options at an exercise price of \$20.07. The execution time falls on December 31, 2016 with the settlement of cash.

**(AG) EPS**

	<b>For the year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Net income attributable to common stockholders	<b>\$ 18,784,906</b>	<b>18,555,999</b>
Weighted-average outstanding shares of common stock (in thousands)	<b>7,862,290</b>	<b>7,862,290</b>
Basic EPS (in dollars)	<b>\$ 2.39</b>	<b>2.36</b>

Retroactive adjustments are applied to the Bank's basic EPS for the year ended December 31, 2012.

Since the Bank and its subsidiaries deal with share-based payment transactions via cash settlement, no impact is expected to be on its weighted-average outstanding shares, nor does the diluted EPS need to be calculated.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AH) Net interest income

	For the year ended December 31	
	2013	2012
<b><u>Interest income</u></b>		
Loan	\$ 31,985,091	30,751,430
Revolving credit	2,750,316	2,689,030
Securities	3,716,612	4,162,896
Due from Central Bank	285,270	236,901
Due from banks and call loans to banks	992,394	1,098,747
Hedging derivatives	1,041,146	1,040,698
Others	1,939,451	1,249,056
Subtotal	42,710,280	41,228,758
<b><u>Interest expense</u></b>		
Deposit	11,256,501	10,396,866
Due to other banks	271,992	336,030
Borrowings and other financing	2,567,715	2,676,366
Hedging derivatives	290,476	312,192
Others	17,450	12,099
Subtotal	14,404,134	13,733,553
	<b>\$ 28,306,146</b>	<b>27,495,205</b>

Interest income and expense from financial assets and liabilities measured at fair value through profit and loss are excluded.

(AI) Service fee and commission income

	For the year ended December 31	
	2013	2012
<b><u>Commission income</u></b>		
Credit card business	\$ 4,715,525	5,037,022
Wealth management business	10,698,723	9,663,882
Corporate business	2,742,810	2,591,595
Banking business	3,133,320	2,708,947
Lottery business	5,007,165	4,441,427
Others	28,470	45,514
Total commission income	26,326,013	24,488,387
<b><u>Service fee</u></b>		
Credit card business	(185,848)	(157,176)
Wealth management business	(297,264)	(256,397)
Corporate business	(197,911)	(160,334)
Banking business	(736,425)	(839,382)
Lottery business	(365,060)	(279,551)
Others	(8,860)	(339)
Total service fee	(1,791,368)	(1,693,179)
Service fee and commission income	<b>\$ 24,534,645</b>	<b>22,795,208</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AJ) Gains and losses on financial assets or liabilities measured at fair value through profit or loss

	For the year ended December 31,	
	2013	2012
<b>Disposal gains (losses)</b>		
Commercial paper	\$ 6,194	2,619
Treasury bills	187	1,820
Government bonds	63,793	145,461
Corporate bonds	(284)	22,706
Financial debentures	53,899	67,684
Convertible bonds	24,821	12,293
Beneficiary certificates	(3,288)	20
Asset-backed commercial paper	1,012	643
Listed and OTC securities	(28,168)	(65,916)
Other securities and bonds	1,299	165,380
Derivative financial instruments	4,252,515	1,323,624
Borrowed securities	10,497	(2,982)
Fair value hedge adjustment	-	20,684
Subtotal	4,382,477	1,694,036
<b>Valuation(losses) gains</b>		
Commercial paper	(1,838)	(5,508)
Treasury bills	841	(817)
Government bonds	(12,602)	(4,144)
Corporate bonds	(278)	55
Financial debentures	759,131	405,551
Convertible bonds	214,451	153,741
Asset-backed commercial paper	(770)	(17)
Listed and OTC securities	71,889	(3,351)
Other securities and bonds	-	262,774
Derivative financial instruments	259,991	58,227
Beneficiary certificates	4	-
Borrowed securities	975	(1,006)
Fair value hedge adjustment	(788,408)	(423,500)
Subtotal	503,386	442,005
<b>Dividend income</b>	8,690	27,925
<b>Interest income</b>	486,240	507,513
<b>Total</b>	<b>\$ 5,380,793</b>	<b>2,671,479</b>

(AK) Realized gains(losses) on available-for-sale financial assets

	For the year ended December 31	
	2013	2012
Government bonds	\$ 109,898	345,608
Corporate bonds	(913)	21,746
Listed and OTC securities	1,273,752	609,295
Others	13,287	3,799
<b>Total</b>	<b>\$ 1,396,024</b>	<b>980,448</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AL) (Losses) gains on reversal of impairment loss

	<b>For the year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Impairment provision — premises and equipment	\$ (22,232)	-
Gains on reversal of (provision for) impairment loss — other assets		
Foreclosed properties	(6,710)	7,470
Impairment provision — other financial assets		
Loan held for sale	-	(1,195)
<b>Total</b>	<b>\$ (28,942)</b>	<b>6,275</b>

(AM) Other net non-interest income

	<b>For the year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Excessive recognition of income in the previous reporting period	\$ 311,227	221,504
Rental income	140,911	130,352
Loan breach penalty income	81,223	91,436
Cash dividend income	103,430	129,460
Directors and supervisors remuneration	2,512	2,701
Gains from disposal of equity investment carried at cost	11,086	11,178
Net losses on disposal of foreclosed properties	(29,657)	(5,583)
Promotion and commission fee	(13,511)	(16,596)
Net losses on disposal and retirement of premises and equipment and intangible assets	(28,127)	(2,742)
Others	333,719	476,072
<b>Total</b>	<b>\$ 912,813</b>	<b>1,037,782</b>

(AN) Provisions for bad debt expenses and guarantee reserve

	<b>For the year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Provisions for bad debt expenses — loans and non-accrual loans	\$ 5,867,102	909,450
Reversal of bad debt expenses — credit card	(672,913)	(786,691)
Provisions for bad debt expenses — receivables	832,367	219,766
Provisions for bad debt expenses — guarantee reserves	2,435	5,804
Provisions for bad debt expenses — short-term advances	147,628	139,494
Provisions for bad debt expenses — others	2,200	7,708
<b>Total</b>	<b>\$ 6,178,819</b>	<b>495,531</b>

(AO) Employee benefits expenses

	<b>For the year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Salary expenses	\$ 16,446,215	15,468,699
Insurance expenses	1,046,277	895,011
Share based payment transactions	996,736	377,105
Retirement expenses		
Defined contribution plan	405,099	377,021
Defined benefits plan	338,432	396,936
Other personnel expenses	1,062,684	695,726
<b>Total</b>	<b>\$ 20,295,443</b>	<b>18,210,498</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AP) Depreciation and amortization expenses

	For the year ended December 31	
	2013	2012
Housing	\$ 505,101	563,165
General equipment	263,252	291,317
Transportation equipment	32,735	31,669
Information equipment	391,808	405,190
Subtotal of depreciation expenses	1,192,896	1,291,341
Amortization of information software	584,213	593,830
Bond issuance expenses and others	16,906	16,421
Total	<b>\$ 1,794,015</b>	<b>1,901,592</b>

(AQ) Other general and administrative expenses

	For the year ended December 31	
	2013	2012
Site usage and general equipment expenses	\$ 3,249,183	3,050,283
Information equipment expenses	1,310,807	1,383,350
General administration expenses	2,568,688	2,299,890
Marketing and promotion expenses	1,451,583	1,262,646
Other expenses	3,878,693	3,303,095
Business tax	1,383,381	1,340,318
Total	<b>\$ 13,842,335</b>	<b>12,639,582</b>

(AR) Financial instruments

(a) Fair value of financial instruments

Financial assets	December 31, 2013	
	Book value	Fair value
<b>Non-Derivative Financial Instruments</b>		
Cash and cash equivalents	\$ 84,431,256	84,431,256
Due from Central Bank and call loans to bank	125,125,631	125,125,631
Financial assets measured at fair value through profit or loss	47,600,721	47,600,721
Available-for-sale financial assets — net	295,394,274	295,394,274
Receivables — net	165,594,643	165,594,643
Current income taxes assets	976,140	976,140
Loans — net	1,272,380,866	1,272,380,866
Held-to-maturity financial assets — net	61,274,934	61,610,394
Other financial assets — net	3,051,379	3,051,379
<b>Derivative Financial Instruments</b>		
Trading purpose		
Forwards	1,018,243	1,018,243
Non-delivery forwards	1,823,079	1,823,079
Currency swaps	11,919,567	11,919,567
Cross currency swaps	563,002	563,002
Interest rate swaps	7,862,373	7,862,373
Options	3,912,872	3,912,872
Asset swaps	161,968	161,968
Credit default swaps	7,027	7,027
Commodity futures	586	586
Commodity swaps	81,211	81,211
Equity index futures	43,996	43,996
Derivative financial assets — hedging	910,113	910,113

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>Financial liabilities</b>	<b>December 31, 2013</b>	
	<b>Book value</b>	<b>Fair value</b>
<b>Non-Derivative Financial Instruments</b>		
Deposits from Central Bank and other banks	\$ 48,409,512	48,409,512
Due to Central Bank and other banks	7,384,030	7,384,030
Financial liabilities measured at fair value through profit or loss	2,136	2,136
Securities sold under repurchase agreements	61,038,194	61,038,194
Payables	45,532,625	45,532,625
Current income tax liabilities	1,420,066	1,420,066
Deposits and remittances	1,731,169,325	1,731,169,325
Financial debentures	58,269,949	58,269,949
Other financial liabilities	15,656,655	15,656,655
<b>Derivative Financial Instruments</b>		
Trading purpose		
Forwards	561,627	561,627
Non-delivery forwards	1,660,992	1,660,992
Currency swaps	11,194,709	11,194,709
Cross currency swaps	1,032,426	1,032,426
Interest rate swaps	7,800,757	7,800,757
Options	5,527,911	5,527,911
Asset swaps	47,763	47,763
Credit default swaps	8,383	8,383
Interest rate futures	3,532	3,532
Commodity swaps	75,047	75,047
Equity index futures	11	11
Derivative financial liabilities—hedging	255,112	255,112

<b>Financial assets</b>	<b>December 31, 2012</b>	
	<b>Book value</b>	<b>Fair value</b>
<b>Non-Derivative Financial Instruments</b>		
Cash and cash equivalents	\$ 37,258,838	37,258,838
Due from Central Bank and call loans to bank	109,218,345	109,218,345
Financial assets measured at fair value through profit or loss	50,555,566	50,555,566
Available-for-sale financial assets—net	308,287,286	308,287,286
Receivables—net	138,427,227	138,427,227
Current income taxes assets	1,182,828	1,182,828
Loans—net	1,125,360,672	1,125,360,672
Held-to-maturity financial assets—net	70,965,629	71,518,026
Other financial assets—net	4,614,328	4,614,328
<b>Derivative Financial Instruments</b>		
Trading purpose		
Forwards	1,025,895	1,025,895
Non-delivery forwards	754,001	754,001
Currency swaps	5,895,105	5,895,105
Cross currency swaps	1,476,530	1,476,530
Interest rate swaps	11,902,077	11,902,077
Options	2,668,565	2,668,565
Asset swaps	189,929	189,929
Credit default swaps	29,018	29,018
Commodity futures	28	28
Commodity swaps	61,379	61,379
Equity index futures	411	411
Derivative financial assets—hedging	1,577,954	1,577,954

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>Financial liabilities</b>	<b>December 31, 2012</b>	
	<b>Book value</b>	<b>Fair value</b>
<b>Non-Derivative Financial Instruments</b>		
Deposits from Central Bank and other banks	\$ 30,690,419	30,690,419
Due to Central Bank and other banks	5,008,601	5,008,601
Financial liabilities measured at fair value through profit or loss	8,374	8,374
Securities sold under repurchase agreements	60,777,839	60,777,839
Payables	56,301,348	56,301,348
Current income tax liabilities	1,716,717	1,716,717
Deposits and remittances	1,525,115,648	1,525,115,648
Financial debentures	54,121,632	54,121,632
Other financial liabilities	22,817,037	22,817,037
<b>Derivative Financial Instruments</b>		
Trading purpose		
Forwards	767,882	767,882
Non-delivery forwards	744,847	744,847
Currency swaps	6,864,572	6,864,572
Cross currency swaps	723,167	723,167
Interest rate swaps	12,243,556	12,243,556
Options	3,190,395	3,190,395
Asset swaps	31,076	31,076
Credit default swaps	22,391	22,391
Interest rate futures	1,548	1,548
Commodity futures	203	203
Commodity swaps	50,754	50,754
Equity index futures	3,666	3,666
Derivative financial liabilities—hedging	34,959	34,959



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>Financial assets</b>	<b>January 1, 2012</b>	
	<b>Book value</b>	<b>Fair value</b>
<b>Non-Derivative Financial Instruments</b>		
Cash and cash equivalents	\$ 36,847,941	36,847,941
Due from Central Bank and call loans to bank	118,151,855	118,151,855
Financial assets measured at fair value through profit or loss	35,256,916	35,256,916
Available-for-sale financial assets — net	321,225,166	321,225,166
Securities purchased under reverse repurchase agreements	1,333,711	1,333,711
Receivables — net	130,001,187	130,001,187
Current income taxes assets	1,306,043	1,306,043
Loans — net	1,053,212,396	1,053,212,396
Held-to-maturity financial assets — net	95,932,513	96,778,859
Other financial assets — net	8,359,463	8,359,463
<b>Derivative Financial Instruments</b>		
Trading purpose		
Forwards	259,747	259,747
Non-delivery forwards	1,470,936	1,470,936
Currency swaps	3,577,320	3,577,320
Cross currency swaps	435,579	435,579
Interest rate swaps	15,947,860	15,947,860
Options	3,854,764	3,854,764
Warrants	42	42
Asset swaps	301,979	301,979
Credit default swaps	182,705	182,705
Commodity-linked forward contracts	7,230	7,230
Interest rate futures	213	213
Commodity futures	1,178	1,178
Commodity swaps	226,784	226,784
Equity index futures	1,145	1,145
Derivative financial assets — hedging	2,067,772	2,067,772

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>Financial liabilities</b>	<b>January 1, 2012</b>	
	<b>Book value</b>	<b>Fair value</b>
<b>Non-Derivative Financial Instruments</b>		
Deposits from Central Bank and other banks	\$ 51,364,068	51,364,068
Due to Central Bank and other banks	7,527,128	7,527,128
Financial liabilities measured at fair value through profit or loss	1,152,796	1,152,796
Securities sold under repurchase agreements	75,259,781	75,259,781
Payables	52,248,994	52,248,994
Current income tax liabilities	1,473,534	1,473,534
Deposits and remittances	1,459,527,462	1,459,527,462
Financial debentures	55,182,382	55,182,382
Other financial liabilities	19,174,479	19,174,479
<b>Derivative Financial Instruments</b>		
Trading purpose		
Forwards	315,885	315,885
Non-delivery forwards	1,415,082	1,415,082
Currency swaps	2,117,001	2,117,001
Cross currency swaps	1,135,156	1,135,156
Interest rate swaps	16,709,177	16,709,177
Options	3,198,749	3,198,749
Asset swaps	172,648	172,648
Credit default swaps	121,901	121,901
Commodity-linked forward contracts	4,644	4,644
Commodity futures	548	548
Commodity swaps	186,546	186,546
Equity index futures	209	209
Derivative financial liabilities — hedging	48,576	48,576

(b) Methods and assumptions used by the Bank and its subsidiaries for fair value evaluation of financial instruments were as follows:

1. Fair value of short-term financial instruments is estimated by their book value on the balance sheet date. Since these instruments have short maturities, the book value is adopted as a reasonable basis in estimating the fair value. The method is applied to cash and cash equivalents, due from Central Bank and call loans to banks, securities purchased under reverse repurchase agreements, receivables, current tax assets, other financial assets, deposits from Central Bank and other banks, due to Central Bank and other banks, securities sold under repurchase agreements, payables, current tax liabilities, remittances, and other financial liabilities.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

2. If there is a quoted price in an active market for the financial asset, including financial instruments measured at fair value through profit or loss, available-for-sale, held-to-maturity financial assets, and hedging derivative financial instruments, the quoted price is regarded as its fair value. If there is no quoted price in an active market for the financial asset, its fair value is estimated on the basis of the result of a valuation technique that refers to quoted prices provided by financial institutions. The discounted cash flow technique is used to estimate the fair value of a debt instrument where an active market does not exist. The estimates, hypotheses and discount rates for valuation refer to quoted prices, from financial institutions, of financial instruments having substantially the same terms and characteristics, including the credit quality of debtors, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal, and the currency in which the payments are to be made. Fair value of debt investments without an active market accounted for under other financial assets is determined by the methods described above, and recorded in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Bank’s” at amortized cost. Fair value for an equity investment is determined based on either the price calculated using a valuation technique or its book value.
3. Loans and deposits are both classified as interest-bearing financial assets; therefore, the book value of financial assets is equivalent to their fair value. The net book value of the non-accrual account, after deducting provision for credit loss, is adopted as the fair value.
4. Fair value of long-term liabilities is estimated by the present value of expected future cash flows. The discount rate is based on rates of equivalent loans available elsewhere, that is, loans with similar maturity date and terms (close to the maturity date).
5. Derivatives usually adopt mark-to-model prices. The Discounted-Cash-Flow model is adopted for non-option derivatives, and the Black-Scholes model is adopted for option derivatives.
6. The exchange price is used for financial instruments traded on an exchange. Over-the-counter (OTC) positions use independent price/parameter quotes by reliable brokers or data vendors, such as Reuters, Bloomberg, etc. In general, the closing price, settlement price, mid-price at a fixed cut-off time, and the average price of several independent brokers could be used as market data for valuation purposes.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(c) Fair value hierarchy information on financial instruments and the statements of changes in fair value of Level 3

1. Fair value hierarchy information on financial instruments

Fair value measurement for financial instruments	December 31, 2013			
	Total	Level 1 (Note 1)	Level 2 (Note 2)	Level 3 (Note 3)
<b>Non-Derivative Financial Instruments</b>				
<b>Assets:</b>				
Financial assets measured at fair value through profit or loss				
Financial assets held for trading				
Investment in stocks	\$ 845,526	845,526	-	-
Investment in bonds	46,755,195	7,248,478	39,506,717	-
Available-for-sale financial assets—net				
Investment in stocks	5,373,898	5,373,898	-	-
Investment in bonds	290,013,689	771,831	288,737,697	504,161
Others	6,687	6,471	216	-
<b>Liabilities:</b>				
Financial liabilities measured at fair value through profit or loss	2,136	2,136	-	-
<b>Derivative Financial Instruments</b>				
<b>Assets:</b>				
Financial assets measured at fair value through profit or loss	27,393,924	98,407	24,610,973	2,684,544
Derivative financial assets—hedging	910,113	-	91,326	818,787
<b>Liabilities:</b>				
Financial liabilities measured at fair value through profit or loss	27,913,158	106,276	25,205,379	2,601,503
Derivative financial liabilities—hedging	255,112	255,112	-	-
<b>December 31, 2012</b>				
Fair value measurement for financial instruments	Total	Level 1 (Note 1)	Level 2 (Note 2)	Level 3 (Note 3)
	Total	Level 1 (Note 1)	Level 2 (Note 2)	Level 3 (Note 3)
<b>Non-Derivative Financial Instruments</b>				
<b>Assets:</b>				
Financial assets measured at fair value through profit or loss				
Financial assets held for trading				
Investment in stocks	\$ 265,369	265,369	-	-
Investment in bonds	50,290,197	10,125,939	38,768,617	1,395,641
Available-for-sale financial assets—net				
Investment in stocks	12,135,843	12,135,843	-	-
Investment in bonds	296,151,159	1,168,265	294,501,352	481,542
Others	284	-	284	-
<b>Liabilities:</b>				
Financial liabilities measured at fair value through profit or loss	8,374	8,374	-	-
<b>Derivative Financial Instruments</b>				
<b>Assets:</b>				
Financial assets measured at fair value through profit or loss	24,002,938	41,237	23,243,603	718,098
Derivative financial assets—hedging	1,577,954	-	144,894	1,433,060
<b>Liabilities:</b>				
Financial liabilities measured at fair value through profit or loss	24,644,057	141,802	23,740,606	761,649
Derivative financial liabilities—hedging	34,959	-	34,959	-

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Fair value measurement for financial instruments	January 1, 2012			
	Total	Level 1 (Note 1)	Level 2 (Note 2)	Level 3 (Note 3)
<b>Non-Derivative Financial Instruments</b>				
<b>Assets:</b>				
Financial assets measured at fair value through profit or loss				
Financial assets held for trading				
Investment in stocks	\$ 32,604	32,604	-	-
Investment in bonds	35,224,312	8,519,845	26,422,909	281,558
Available-for-sale financial assets—net				
Investment in stocks	12,371,329	12,371,329	-	-
Investment in bonds	308,801,238	4,697,262	303,637,508	466,468
Others	52,599	52,400	199	-
<b>Liabilities:</b>				
Financial liabilities measured at fair value through profit or loss	1,152,796	2,070	1,150,726	-
<b>Derivative Financial Instruments</b>				
<b>Assets:</b>				
Financial assets measured at fair value through profit or loss	26,267,482	52,800	25,826,637	388,045
Derivative financial assets—hedging	2,067,772	-	202,626	1,865,146
<b>Liabilities:</b>				
Financial liabilities measured at fair value through profit or loss	25,377,546	60,382	24,858,418	458,746
Derivative financial liabilities—hedging	48,576	-	48,576	-

2. Statements of changes in financial assets which were classified to Level 3 based on fair value measurement

For the year ended December 31, 2013										
Items	Beginning balance	The amount recognized in current net income	The amount recognized in other comprehensive income	Purchase or issue	Current increase		Current decrease			Ending balance
					Transfer in of Level 3 and out of other levels	Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities	Sale, disposal, or settlement	Transfer in of other levels and out of Level 3	Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets	
Financial assets measured at fair value through profit or loss										
Financial assets held for trading	\$ 2,113,739	9,041,573	-	844,916	8,683,217	27,862	7,873,714	10,153,049	-	2,684,544
Available-for-sale financial assets—net	481,542	-	27,470	-	-	-	4,851	-	-	504,161
Derivative financial assets—hedging	1,433,060	(614,273)	-	-	-	-	-	-	-	818,787
<b>Total</b>	<b>\$ 4,028,341</b>	<b>8,427,300</b>	<b>27,470</b>	<b>844,916</b>	<b>8,683,217</b>	<b>27,862</b>	<b>7,878,565</b>	<b>10,153,049</b>	<b>-</b>	<b>4,007,492</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For the year ended December 31, 2012										
Items	Beginning balance	The amount recognized in current net income	The amount recognized in other comprehensive income	Purchase or issue	Current increase		Current decrease			Ending balance
					Transfer in of Level 3 and out of other levels	Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities	Sale, disposal, or settlement	Transfer in of other levels and out of Level 3	Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets	
Financial assets measured at fair value through profit or loss										
Financial assets held for trading	\$ 669,603	948,071	-	1,392,980	10,753,182	72,598	2,141,679	9,581,016	-	2,113,739
Available-for-sale financial assets – net	466,468	-	17,771	-	-	-	2,697	-	-	481,542
Derivative financial assets – hedging	1,865,146	(432,086)	-	-	-	-	-	-	-	1,433,060
Total	<u>\$ 3,001,217</u>	<u>515,985</u>	<u>17,771</u>	<u>1,392,980</u>	<u>10,753,182</u>	<u>72,598</u>	<u>2,144,376</u>	<u>9,581,016</u>	<u>-</u>	<u>4,028,341</u>

3. Statements of changes in financial liabilities which were classified to Level 3 based on fair value measurement

	For the year ended December 31, 2013								
			Current increase			Current decrease			
		The amount recognized in current net income		Transfer in of Level 3 and out of other levels	Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets	Sale, disposal, or settlement	Transfer in of other levels and out of Level 3	Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities	Ending balance
Items	Beginning balance		Purchase or issue						
Financial liabilities measured at fair value through profit or loss									
Financial liabilities held for trading	\$ 761,649	5,640,224	2,974,265	272,124	27,862	6,816,506	258,115	-	2,601,503

For the year ended December 31, 2012									
Items	Beginning balance	The amount recognized in current net income	Current increase			Current decrease			Ending balance
			Purchase or issue	Transfer in of Level 3 and out of other levels	Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets	Sale, disposal, or settlement	Transfer in of other levels and out of Level 3	Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities	
Financial liabilities measured at fair value through profit or loss									
Financial liabilities held for trading	\$ 458,746	54,831	1,051,097	362,718	72,598	897,031	341,310	-	761,649

Note 1: Fair value measurement for a financial instrument classified in Level 1 is determined as the quoted price for an identical financial instrument in an active market. The definition of active market has all of the following conditions: (1) the products traded in the market are homogeneous, (2) willing parties are available anytime in the market, and (3) price information is available for the public.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Note 2: Fair value measurement for a financial instrument classified in Level 2 is determined as the observable price other than quoted price in an active market including an observable input obtained in an active market, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The examples of observable price are as follows:

- A. The quoted price for an identical financial instrument in an active market means the fair value from the market transaction prices for an identical financial instrument. An identical financial instrument should be determined by its characteristics and terms of transaction. The fair value of a financial instrument has to be adjusted according to the observable market price of the identical financial instrument. The reasons for adjustments include time lag of the occurring market transaction prices for an identical financial instrument (the quoted prices do not represent fair value at the measurement date), the difference in transaction terms for financial instruments, transaction prices involving related parties, and the correlation between the observable transaction prices of identical financial instruments and the market prices of held financial instruments.
- B. The quoted market price of the same or identical financial instruments in an inactive market.
- C. The fair value is estimated on the basis of the results of a valuation technique, and the market inputs used (i.e., interest rate, yield curve, and fluctuation rate) are based on obtainable data from the market (an observable input means an input can be derived from market data and can reflect the expectation of market participants when the inputs were used in evaluating the prices of financial instruments).
- D. A majority of inputs are derived from observable market data, or the input correlation can be tested based on observable market data.

Note 3: Input for a fair value measurement for a financial instrument classified in Level 3 is not based on obtainable data from the market (an unobservable input, such as volatility for a share option derived from the share's historical prices, as it does not generally represent current market expectations about future volatility).

- (d) For the year ended December 31, 2013 and 2012, unrealized (losses) gains due to the estimated change of fair value recognized by the Bank and its subsidiaries were \$428,506 and \$458,386, respectively.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(e) Financial risk information

The major objective of the risk management of the Bank and its subsidiaries is to control the risk under the scope approved by the board of directors by using effective management methods to utilize resource and create maximum economic profit. For major risks, the Bank and its subsidiaries had established the risk management policies to serve as its primary principle, which covers managerial objective, organizational structure, accountability, and risk management procedures, and by implementing these mechanisms, operational risks can be controlled at an acceptable level.

The organization structure of risk management includes Board of Directors, General Auditor, Risk Management Committee, Senior Management and Global Risk Management Group. The scope of their authorities illustrates as follow:

Board of directors, who is in charge of risk strategy approval, risk policies, risk management frameworks, and creating a culture of risk management, serves as the primary guidance for all risks and undertakes ultimate responsibility of overall risk management.

General Auditor is responsible for planning and carrying out all kind of audit business and is directly accountable to the Board. The internal auditing unit under the General Auditor must regularly review and assess the integrity and actual implementation on various kinds of risk management mechanism, and timely provide suggestions for improvement so that the risk management mechanism can be run continually effectively.

Risk Management Committee assists the Board in risk governance, by communicating, reporting, and recommendations; Risk Management Committee also builds appropriate risk authorization and will monitor and ensure risk authorization operates properly. We expect the senior managers to support the Bank's culture of risk management, through decision-making processes and leader's supportive behavior, and thus influence all employees and organization.

Senior Management is responsible for supervising and ensuring risk authorization system operate properly in accordance with the direction of the board approved.

Global Risk Management Group is responsible for planning and managing the Bank's risk profiles which include credit, market, operations, interest and liquidity risks of the banking book, and developing proper policies and strategies relating to risk identification, measurement, control, and management.

1. Market Risk Management

Definition and sources of market risk management

Market risk is the risk that the Bank and its subsidiaries' earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rate (including credit spread), foreign exchange rate, securities price and commodity price. The market correlation and liquidity of these types of instruments are also covered.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The Bank and its subsidiaries divide market risk exposures into either trading or non-trading portfolios. The trading portfolio includes positions arising from trading activities, which aim at benefiting from short-term price movements, such as proprietary trading and market making. The non-trading portfolio includes positions not held for the purpose of earning capital gains.

The market risk management framework for trading and non-trading portfolios is described as follows:

**A. Trading Portfolios Management**

**a. Objective**

The Market Risk Management Policy is the cornerstone of managing market risk-taking activities in the Bank and its subsidiaries. The Policy is developed to establish definite market risk management mechanisms of financial transaction, to facilitate market risk communication within the Bank and its subsidiaries, and to provide proper management.

**b. Market Risk Management Procedure and Measurement**

**(A) Management Procedures**

**(a) Risk identification**

Risk-taking unit shall identify the risk related to factors resulting from the business strategy or financial instruments, and those factors should be clearly stated in the relevant product program documentation.

**(b) Risk measurement**

Market risk management unit (MRMU) shall define appropriate and consistent market risk measurement methodologies in line with the business characteristics and risk source to properly evaluate the primary market risk exposure. The measurement results shall be applied to daily management and shall serve as a foundation for market risk planning, monitoring, and controlling.

Valuation approach and market data adoption for calculating P/L, risk sensitivities, Value at Risk (VaR), stress testing should be approved by MRMU.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(c) Risk monitoring

Market risk limit is a tool for authorizing and controlling specific forms of market risk arising from the trading activities of the Bank and its subsidiaries to ensure that the Bank and its subsidiaries are not exposed to market risk beyond the risk appetite. Market risk limit management procedures, including the establishment, approval, exception management and limit excess treatment, shall comply with the Market Risk Management Policy.

(d) Risk reporting

Market risk reporting is an effective risk communication tool. MRMU shall submit market risk management reports to relevant managers on a daily basis and periodically report the integrated market risk profile to senior executives and the Board to evaluate risk concentration and capacity of the Bank and its subsidiaries and to form necessary risk adjusting strategies.

(B) Risk Measurement Approaches

(a) Value at Risk, VaR

The VaR model has been developed as an independent and reliable quantitative technique for internal risk management purpose, and will be continually refined to meet the quantitative and qualitative standards of IMA (Internal Model Approach) requirements.

(b) Stress Testing

Stress testing is used to calculate a range of trading exposures which result from extreme market events or scenarios. Stress testing measures the impact of exceptional changes in market rate/price, volatility or correlation in the fair value of trading portfolios, and is a supplement to VaR which is unable to capture the tail risk.

(c) Factor Sensitivity

Factor sensitivity is a measurement for monitoring the cross-product exposures within each risk type, including but not limited to foreign exchange, interest rate, equity, commodity, and credit.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

c. Market Risk Mitigation and Hedging

To manage the exposures within an acceptable level, the Bank and its subsidiaries may reduce the exposure or apply hedging measures upon internal approval to transfer the overall level of risk profile of a portfolio.

MRMU is responsible for evaluating the necessity, rationality and effectiveness of hedge plan, and shall periodically assess the hedge effectiveness after undertaking the hedge.

d. Interest Rate Risk Management

(A) Definition

Interest rate risk arises from adverse changes in interest rates. Primary interest rate related instruments held in the Bank and its subsidiaries' trading portfolios include bonds and interest rate derivatives, such as interest rate swaps, caps/floors, and swaptions.

(B) Management Procedure

The Bank and its subsidiaries control interest rate risk by setting limits in different yield curves and currencies depending on management needs. In order to effectively control the exposure for each market risk limit stratum, such as bank-wide, business function or desk level, VaR limits for each limit stratum are employed to reinforce the control of interest rate exposures.

(C) Measurement Approach

PVBP, the change in fair value as the yield curve parallel shifts up by 0.01% (1bp), is used to measure interest rate risk exposures of the Bank and its subsidiaries' trading portfolios.

Unit : In Thousands of New Taiwan Dollars

	Currency	December 31, 2013	December 31, 2012	January 1, 2012
<u>Yield curve parallel shift of +0.01%</u>				
	CNY	\$ (218)	12	353
	EUR	(129)	(21)	(102)
	HKD	(281)	(675)	(702)
	KRW	(75)	(39)	(51)
	NTD	935	1,413	(91)
	USD	449	(298)	(1,176)
	Others	(560)	(455)	(125)

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

e. Foreign Exchange Risk

(A) Definition

Foreign exchange risk arises from adverse changes in exchange rates. Primary foreign exchange instruments held in the Bank and its subsidiaries' trading portfolios include spots, forwards, and currency options.

(B) Management Procedure

The Bank and its subsidiaries control foreign exchange risk by setting limits in different currencies or currency pairs depending on management needs. In order to effectively control the exposure for market risk limit stratum, VaR limits for each limit stratum are employed to reinforce the control of foreign exchange exposures.

(C) Measurement Approach

FX Delta, the change in net present value as the foreign exchange rate moves up by one unit, 1%, is used to measure foreign exchange risk exposure of the Bank and its subsidiaries' trading portfolios.

Unit : In Thousands of New Taiwan Dollars

	Currency	December 31, 2013	December 31, 2012	January 1, 2012
Underlying currency upward movement by 1%				
	AUD	\$ (1,587)	(483)	(516)
	CNY	141,046	54,395	32,319
	EUR	(1,088)	1,896	(4,329)
	GBP	(223)	88	(795)
	HKD	(3,284)	(7,259)	(6,951)
	JPY	(13,822)	(10,251)	(988)
	KRW	(115)	(60)	66
	USD	(109,427)	(51,517)	7,338
	Other	(7,147)	(5,321)	(1,025)

f. Other Risk Factor Sensitivities

(A) Equity Factor Sensitivity (Equity delta)

Equity Delta is the change in fair value as the underlying stock price or index price moves up by 1%. Primary equity instruments held in the Bank and its subsidiaries' trading portfolios include stocks, convertible bonds, equity index futures and options.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(B) Commodity Factor Sensitivity (Commodity delta)

Commodity Delta is the change in fair value as the underlying commodity price moves up by 1%. Primary commodity instruments held in the Bank and its subsidiaries' trading portfolios include derivatives in gold and crude oil.

(C) Credit Spread Factor Sensitivity (CR01, Credit 01)

CR01 is the change in fair value as the credit spread shift up by 0.01% (1bp). Primary credit-linked instruments held in the Bank and its subsidiaries' trading portfolios include credit default swaps.

<u>Equity factor sensitivity (Equity delta)</u>	<u>Country/ Commodity</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Equity Factor Sensitivity				
Stock price or index upward movement by 1%	Taiwan	\$ 15,574	14,073	12,040
	US	550	2,055	-
Commodity Factor Sensitivity				
Commodity price upward movement by 1%	Crude oil	-	133	-
	Gold	(614)	(966)	55
	Copper	12	252	(2)
	Others	(16)	40	(335)
Credit Spread Factor Sensitivity				
Credit spread upward shift by 0.01%		(113)	(293)	(835)

**B. Management Mechanism of Non-Trading Purpose Investment Portfolio**

**a. Management of Non-Trading Purpose Interest Rate Risk**

(A) Definition of Non-Trading Purpose Interest Rate Risk

Non-trading purpose interest rate risk of the Bank and its subsidiaries refers to the impact on the profit or economic value of non-trading purpose interest rate sensitive asset / liabilities when interest rate changes.

Interest rate risk mainly stems from different sensitivity of assets and liabilities to interest rate change. If interest rate of different repricing tenor moves at varying magnitude when external interest rate change, the mismatches of repricing timing / amount of asset and liability may fluctuate the Bank and its subsidiaries' profit.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(B) Management Objective of Non-Trading Purpose Interest Rate Risk**

The management objective of non-trading purpose interest rate risk of the Bank and its subsidiaries' aims to keep interest rate exposures within the risk appetite through the establishment of authorities, responsibilities and management procedures. It provides guide to adjusting asset and liability structures in anticipation of interest rate changes so that funds can be used more efficiently and the Bank and its subsidiaries' profit can be maximized.

**(C) Management Procedures and Risk Measurement of Non-Trading Purpose Interest Rate Risk.**

The Bank and its subsidiaries identify, measure, monitor, and report the interest rate risk through a thorough risk management framework and procedures. To control the interest rate risk, the Bank and its subsidiaries periodically monitor the risk exposure according to the approved limit hierarchy and apply matched term Fund Transfer Pricing Mechanism to transfer interest rate risk from business units to designated fund management unit.

Interest rate risk monitoring unit periodically conducts the risk reports, which contain the analysis of limit usage and interest rate risk sensitivity. The risk report with supplemental stress test result shall periodically be submitted to related risk management meetings. The measurement of non-trading purpose interest rate risk includes non-trading purpose interest-sensitive asset, liabilities, financial instruments, and interest rate related derivatives which apply hedge accounting. The Bank and its subsidiaries measure interest rate risks by the following tools:

- (a) Repricing Gap Report : This report measures the repricing gap between asset and liability by various time buckets in order to understand interest rate mismatch.
- (b) Interest Rate Sensitivity : This measures the impact of 1 basis point change in interest rate on net interest income (NII) and that on economic value of equity (EVE). The analysis of such impact on NII (1bp $\Delta$ NII) focuses on changes in interest income and expense within a year; hence, this analysis is of a short-term perspective. The analysis of such impact on EVE (1bp $\Delta$ EVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on.
- (c) Stress Test : This evaluates the impact of a significant change in interest rate on EVE. The test results will be compared with capital in order to examine the appropriateness of exposure.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(D) Risk Mitigation and Hedge of Non-Trading Purpose Interest Rate Risk

The Bank and its subsidiaries set interest rate limits to manage risk. When an excess of limit is confirmed, business unit will explain the reason; risk monitoring unit analyzes the impact, coordinates funding management unit and other related units to submit the action plan to the limit authority for approval, and traces the effectiveness of the action plan.

The Bank and its subsidiaries may adjust the interest rate risk exposure by adjusting the asset and liability structures or entering derivative with external counterparties. Prior to executing an external hedge, the hedge plan with specified hedged position, profit and loss analysis and detailed scheme shall be discussed by related risk committee and approved by the President. After a hedge executed, risk management unit shall periodically review the hedge execution and effectiveness, and report to the risk committee depending on the impact.

b. Management of Non-Trading Purpose Foreign Exchange Rate Risk

(A) Definition and Sources of Non-Trading Purpose Foreign Exchange Rate Risk

Non-trading purpose foreign exchange (FX) rate risk of the Bank and its subsidiaries' refers to the impact on the profit or loss due to fluctuation of FX rate of non-trading purpose FX positions, such as interest income / expenses of foreign currency denominated loans / deposits or accrued interests of foreign currency bonds. Although the unrealized foreign currency gains and losses of "available-for-sale" positions entail FX risks, FX risk management does not apply to these gains / losses because they have not been recognized in the income statement.

(B) Management Objective of Non-Trading Purpose Foreign Exchange Rate Risk

The management objective of non-trading purpose FX risk of the Bank and its subsidiaries aims to keep FX exposures within the risk appetite through the establishment of authorities, responsibilities and management procedures.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(C) Management Procedure and Risk Measurement of Non-Trading Purpose Foreign Exchange Rate Risk

The Bank and its subsidiaries identify, measure, monitor, and report the FX risk through the thorough risk management framework and procedure. To control the FX risk, The Bank and its subsidiaries periodically monitor the risk exposure according to the approved limit hierarchy and sweep FX risk centrally from business units to designated FX management unit. The risk factor which measures non-trading purpose Foreign Exchange Risk is “FX Delta”, which measures the impact on the profit and loss when FX rate changes.

(D) Risk Mitigation and Hedge of Non-Trading Purpose Foreign Exchange Rate Risk

The Bank and its subsidiaries set the FX limits and control mechanisms to manage the FX risk. When an excess of limit is confirmed, business unit will explain the reason; risk monitoring unit analyzes the impact, coordinates business unit to submit the action plan to the limit authority for approval, and traces the effectiveness of the action plan.

Prior to executing an external hedge, the hedge plan with specified hedged position, profit and loss analysis and detailed scheme shall be discussed by related risk committee and approved by the President. After a hedge executed, risk management unit shall periodically review the hedge execution and effectiveness, and report to the risk committee depending on the impact.

c. Management of Non-Trading Purpose Equity Risk

(A) Definition and Sources of Non-Trading Purpose Equity Risk

Non-trading purpose equity risk of the Bank and its subsidiaries’ refers to the impact on the profit or loss of non-trading purpose equity position when equity price changes.

(B) Management Objective of Non-Trading purpose Equity Risk

The management objective of non-trading purpose equity risk of The Bank and its subsidiaries aims to keep equity exposures within the risk appetite and strives to minimize the unfavorable impact to earnings or shareholder value through the establishment of authorities, responsibilities and management procedures.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(C) Management Procedure and Risk Measurement of Non-Trading purpose Equity Risk

The Bank and its subsidiaries identify, measure, monitor, and report the equity risk through the thorough risk management framework and procedure. To control the equity risk, The Bank and its subsidiaries periodically monitor the risk exposure according to the approved limit hierarch. The Equity risk limit structure contains holding cost limit and Year-To-Date profit and loss management action trigger (YTD MAT).

(D) Risk Mitigation and Hedge of Non-Trading Purpose Equity Risk

The Bank and its subsidiaries set the equity limits to manage the equity risk. When an excess of limit is confirmed, business unit will explain the reason; risk monitoring unit analyzes the impact, coordinates business unit to submit the action plan to the limit authority for approval, and traces the effectiveness of the action plan.

d. Factor Sensitivity Analysis

Factor sensitivity analysis by the Bank and its subsidiaries summarized as below:

December 31, 2013			
Risk Items	Movement	Amount	
		Profit and Loss	Equity
Interest Rate Risk	Interest rate curve shift up 1bp	63,549	(18,078)
	Interest rate curve shift down 1bp	(63,285)	18,078
Foreign Exchange Rate Risk	Foreign currency appreciate 1% against NTD	(1,884)	-
	Foreign currency depreciate 1% against NTD	1,884	-
Equity Price Risk	Equity price appreciate 1%	-	53,804
	Equity price depreciate 1%	-	(53,804)

December 31, 2012			
Risk Items	Movement	Amount	
		Profit and Loss	Equity
Interest Rate Risk	Interest rate curve shift up 1bp	30,449	(20,737)
	Interest rate curve shift down 1bp	(29,983)	20,737
Foreign Exchange Rate Risk	Foreign currency appreciate 1% against NTD	(1,837)	-
	Foreign currency depreciate 1% against NTD	1,837	-
Equity Price Risk	Equity price appreciate 1%	-	121,358
	Equity price depreciate 1%	-	(121,358)

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

January 1, 2012			
Risk Items	Movement	Amount	
		Profit and Loss	Equity
Interest Rate Risk	Interest rate curve shift up 1bp	23,780	(18,666)
	Interest rate curve shift down 1bp	(23,037)	18,666
Foreign Exchange Rate Risk	Foreign currency appreciate 1% against NTD	(1,993)	-
	Foreign currency depreciate 1% against NTD	1,993	-
Equity Price Risk	Equity price appreciate 1%	-	124,052
	Equity price depreciate 1%	-	(124,052)

Note: When a fair value hedge or hedge of a net investment in a foreign operation is in conformity with all the conditions for applying hedge accounting, the mentioned positions will not be covered by summarized details above. Because the affected profit or loss is recognized by offsetting the changes in the fair value of hedging instruments and hedged items.

C. Foreign exchange rate gap information

According to IFRS 7 “Financial Instruments” paragraph No. 34(a), an entity shall disclose summarized quantitative data about its exposure to that risk at the end of the reporting period. Significant foreign exchange rate risk exposure of the Bank and its subsidiaries was as below:

December 31, 2013			
	Foreign currency	Spot rate	NTD amount
<b><u>Financial assets</u></b>			
<b><u>Monetary items</u></b>			
USD	\$ 17,037,097	29.9500	510,261,041
CNY	15,053,622	4.9470	74,470,268
JPY	80,052,298	0.2853	22,838,921
EUR	261,761	41.2860	10,807,060
AUD	580,395	26.7120	15,503,521
<b><u>Non-monetary items</u></b>			
USD	18,765	29.9500	562,011
<b><u>Financial liabilities</u></b>			
<b><u>Monetary items</u></b>			
USD	\$ 17,569,705	29.9500	526,212,672
CNY	22,936,850	4.9470	113,468,596
JPY	78,927,269	0.2853	22,517,950
EUR	266,925	41.2860	11,020,265
AUD	579,164	26.7120	15,470,623

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>December 31, 2012</b>			
	<b>Foreign currency</b>	<b>Spot rate</b>	<b>NTD amount</b>
<b><u>Financial assets</u></b>			
<b><u>Monetary items</u></b>			
USD	\$ 11,555,163	29.1360	336,671,222
CNY	9,753,965	4.6760	45,609,541
JPY	48,875,987	0.3375	16,495,646
CAD	335,119	29.2970	9,817,975
NZD	5,265	23.9350	126,015
<b><u>Non-monetary items</u></b>			
USD	21,951	29.1360	639,564
<b><u>Financial liabilities</u></b>			
<b><u>Monetary items</u></b>			
USD	\$ 4,826,555	29.1360	140,626,510
CNY	13,364,238	4.6760	62,491,177
JPY	48,708,985	0.3375	16,439,282
CAD	294,872	29.2970	8,638,872
NZD	33,556	23.9350	803,161
<b>January 1, 2012</b>			
	<b>Foreign currency</b>	<b>Spot rate</b>	<b>NTD amount</b>
<b><u>Financial assets</u></b>			
<b><u>Monetary items</u></b>			
USD	\$ 13,263,856	30.2900	401,762,200
JPY	57,518,843	0.3906	22,466,860
EUR	252,925	39.1980	9,914,141
CNY	5,567,928	4.8080	26,770,599
GBP	46,530	46.7500	2,175,285
<b><u>Non-monetary items</u></b>			
USD	12,031	30.2900	364,419
<b><u>Financial liabilities</u></b>			
<b><u>Monetary items</u></b>			
USD	\$ 14,052,220	30.2900	425,641,743
JPY	56,983,037	0.3906	22,257,574
EUR	250,738	39.1980	9,828,443
CNY	5,795,404	4.8080	27,864,304
GBP	46,979	46.7500	2,196,278

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

D. Disclosure items required by the “Regulations Governing the Preparation of Financial Reports by Public Banks”

a. Interest rate sensitivity information

(A) Sensitivity analysis of interest rate for assets and liabilities (New Taiwan Dollars)

December 31, 2013

Unit : In Thousands of New Taiwan Dollars , %

Items	1~90 days (inclusive)	91~180 days (inclusive)	181 days~1 year (inclusive)	Over 1 year	Total
Interest rate sensitive assets	\$ 1,163,196,896	58,885,343	47,314,092	67,942,500	1,337,338,831
Interest rate sensitive liabilities	484,182,849	697,325,075	95,546,629	28,796,289	1,305,850,842
Interest rate sensitivity gap	679,014,047	(638,439,732)	(48,232,537)	39,146,211	31,487,989
Net worth					146,850,762
Ratio of interest-rate-sensitive assets to liabilities (%)					102.41
Ratio of interest rate sensitivity gap to net worth (%)					21.44

December 31, 2012

Unit : In Thousands of New Taiwan Dollars , %

Items	1~90 days (inclusive)	91~180 days (inclusive)	181 days~1 year (inclusive)	Over 1 year	Total
Interest rate sensitive assets	\$ 1,071,471,039	81,126,080	56,729,227	75,937,358	1,293,263,704
Interest rate sensitive liabilities	465,430,125	628,019,673	104,570,958	28,472,430	1,226,493,186
Interest rate sensitivity gap	614,040,914	(546,893,593)	(47,841,731)	47,464,928	66,770,518
Net worth					140,494,840
Ratio of interest-rate-sensitive assets to liabilities (%)					105.44
Ratio of interest rate sensitivity gap to net worth (%)					47.53

Note :

1. The aforementioned are the Bank's position denominated in NTD, but do not include contingent asset or liabilities.
2. Interest rate sensitive assets and liabilities are the interest-earning asset or interest-bearing liabilities whose revenue or costs are affected by interest rate change.
3. Interest rate sensitivity gap= Interest rate sensitive assets - Interest rate sensitive liabilities
4. Ratio of interest rate sensitive assets to liabilities = Interest rate sensitive assets / Interest-rate-sensitive liabilities (denominated in NTD)

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(B) Sensitivity analysis of interest rate for assets and liabilities (USD)

December 31, 2013

Unit : In Thousands of U.S. Dollars, %

Items	1~90 days (inclusive)	91~180 days (inclusive)	181 days~1 year (inclusive)	Over 1 year	Total
Interest rate sensitive assets	\$ 9,959,112	886,035	393,740	184,087	11,422,974
Interest rate sensitive liabilities	4,198,191	7,027,461	893,945	5,065	12,124,662
Interest rate sensitivity gap	5,760,921	(6,141,426)	(500,205)	179,022	(701,688)
Net worth					4,903,197
Ratio of interest-rate-sensitive assets to liabilities (%)					94.21
Ratio of interest rate sensitivity gap to net worth (%)					(14.31)

December 31, 2012

Unit : In Thousands of U.S. Dollars, %

Items	1~90 days (inclusive)	91~180 days (inclusive)	181 days~1 year (inclusive)	Over 1 year	Total
Interest rate sensitive assets	\$ 8,225,837	521,628	92,886	102,211	8,972,562
Interest rate sensitive liabilities	3,574,276	5,784,517	810,012	8,772	10,177,577
Interest rate sensitivity gap	4,681,561	(5,262,889)	(717,126)	93,439	(1,205,015)
Net worth					4,822,036
Ratio of interest-rate-sensitive assets to liabilities (%)					88.16
Ratio of interest rate sensitivity gap to net worth (%)					(24.99)

Note :

1. The aforementioned are the Bank's position denominated in USD, but do not include contingent asset or liabilities.
2. Interest rate sensitive assets and liabilities are the interest-earning asset or interest-bearing liabilities whose revenue or costs are affected by interest rate change.
3. Interest rate sensitivity gap= Interest rate sensitive assets – Interest rate sensitive liabilities
4. Ratio of interest rate sensitive assets to liabilities = Interest rate sensitive assets / Interest rate sensitive liabilities (denominated in USD)



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

2. Credit Risk Management

A. Definition and sources of credit risk management

Credit risk of the Bank and its subsidiaries is the risk of financial loss if a client or counterparty fails to meet its contractual obligations. Credit risk arises from both on-balance-sheet items and off-balance-sheet items. On-balance-sheet items include Loan and Credit Card, Due from Central Bank and Call loans to banks, Debt Investment and Derivatives Transaction. Off-balance-sheet items mainly include Guarantees, Bank Acceptance, Letter of Credit and Loan Commitments.

B. Objectives of Credit Risk Management

The objective of credit risk management of the Bank and its subsidiaries is minimizing the potential financial losses by appropriate strategies, policies and procedures. By strengthening credit risk management framework, which is transparent, systematic, professional and well-established, credit risk management is rooted in its corporate governance to reinforce business performance and improve shareholder's equity.

C. Credit Risk Management Process and Credit Risk Measurement

a. Credit risk Management Process

(A) Risk Identification

Credit risk comes from the default risk of a credit client, significant decline in credit quality, collateral devaluation or the default risk of derivatives counterparty. Credit risk factors identification shall consider not only internal business operations but also external environmental changes.

(B) Risk Measurement

In order to appropriately evaluate and monitor obligor's credit risk, the Bank and its subsidiaries implement the internal rating system factored in the characteristics of obligors and products to quantify it. The corresponding policies and procedures are established and the regular model validation mechanism is executed to ensure the appropriateness and effectiveness of the model. Credit risk management policy and experienced credit officers' judgment supplement the credit rating application on credit approval, facility management and performance analysis, etc.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(C) Risk Monitoring

To ensure credit risk is under control, the Bank and its subsidiaries have established credit risk limit management mechanism and set up management information system to monitor the credit risk portfolio and risk concentration situation. The Bank and its subsidiaries have developed comprehensive credit process, such as credit extension and annual review procedure, loan review mechanism, guideline for early-warning and watch-list accounts, guideline for collateral appraisal and management, rules of pre-settlement risk mitigation, procedure for bad loan management, guideline for provision allowance and so on to reduce the probability of loss and ensure our claim on exposure.

(D) Risk Reporting

Risk management unit periodically prepares credit risk portfolio/management report and submits these reports to senior management. The reports disclose the Bank and its subsidiaries' credit risk profile from various dimensions, such as credit quality, portfolio concentration, industry sector exposure, scorecard model validation result, etc.

b. Measurement of Credit Risk

(A) Internal Rating System

The development of internal rating system and the estimation of parameters for credit risk measurement are based on the Bank and its subsidiaries' internal historical data. The three major risk components include Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), which are used to measure the expected loss and unexpected loss, to assist the Bank and its subsidiaries' in their stable growth of long-term operation.

(a) Probability of default

The Bank and its subsidiaries' institutional banking group has developed various scorecard models for Jumbo, Middle, Small and Medium Enterprise, Real Estate Developer, etc. based on obligor's characteristics, including exposure types, industrial characteristics, revenue scales, and the correspondent with the Bank and its subsidiaries. The Bank and its subsidiaries also develop a masterscale to segment obligor's default risk; each segment of the masterscale is associated with a predefined one-year forward-looking probability of default. As for retail banking group, we also developed the risk segmentation with predefined one-year forward-looking probability of default, which

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

is developed according to obligor's risk characteristics, such as credit score, and delinquency status.

(b) Loss given default

CTBC institutional banking group calculates the parameters of LGD, such as Collateral Recovery Rate, based on the product characteristics, collateral types, and guarantee forms, etc. The parameters are used to estimate the LGD for each facility. CTBC retail banking group established the LGD segmentation with long-run default-weighted average LGD, which is developed according to the product characteristics, such as Loan-to-value, exposure, collateral type, etc.

(c) Exposure at default

Exposure at default is calculated by current outstanding plus potential extra outstanding at default. The credit conversion factor for potential extra outstanding at default is calculated by taking the facility commitment, usage ratio, loan outstanding and headroom into consideration. For off-balance exposure, Non-cash conversion factor is used to estimate the portion of off-balance-sheet exposure converted into on-balance-sheet if default.

(B) Stress Test

Credit risk stress test mechanism is used to control the plausible and exceptional risk. Stress testing helps the Bank and its subsidiaries aware of the possible change of risk component resulting from stress event, and assess the amount of capital needed to absorb losses or plan remedial actions to mitigate the impact of exceptional loss when such incident occurs.

There are two stress testing approaches -“Sensitivity Analysis” and “Scenario analysis”. Stress test scenarios are set by Senior Management Meeting. The stress testing is conducted periodically or on ad-hoc basis if significant external environment changes. The result of stress test should be approved by senior management and board of directors.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**D. Mitigation of Credit Risk**

**a. Collateral Management**

In assessing the credit extension, the business prospect, future cash flow, and repayment ability and willingness of an obligor are the main factors for determining the repayment capability. However, for the creditor's sake, the Bank and its subsidiaries, under government regulations, could ask the obligor or a third party to deliver pledge of real estate, chattel, or securities as collateral which could be disposed for recovering the creditor's right if the obligor defaults. The Bank and its subsidiaries established several guidelines with respect to loan to value, collateral types, appraisement, and collateral insurance, so that we can maintain good standing value in case of disposing collaterals timely.

**b. Pre-settlement risk mitigation**

For pre-settlement risk, the Bank and its subsidiaries might take mitigation actions such as calling for additional collateral (or margin), signing a netting agreement or signing an early determination agreement so as to reduce the credit loss.

**c. Post-lending loan review Mechanisms**

Post-lending loan review mechanism refers that the Bank and its subsidiaries periodically monitor customer's usage of fund, performance and repayment capability so as to control the change of customer's risk. The review frequency and review content depend on the grade of customers. The Bank and its subsidiaries stipulated Guideline for Loan Reviews based on the lending principle issued by The Bankers Association of The Republic of China and Credit Officer System established by the Bank and its subsidiaries. Loan review items cover change of borrower's business, relationship with banks, change of operation condition, change of the collateral value, change of bank debt, and change of repayment sources and so on. If there is significant change of obligor's credit risk profile, the credit grade will be re-rated and unused facility might be adjusted depending on the situation.

**d. Credit Risk Assurance Review**

In order to ensure the adequacy of entire credit risk management and control mechanisms, credit risk portfolio and credit risk management process are assessed, reviewed, monitored and examined periodically by the Bank and its subsidiaries, to assist the Bank and its subsidiaries in their stable growth of long-term operation.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

e. External guarantee

In order to enhance the credit for weak small and medium business borrowers and risk mitigation for the unsecured exposure of small and medium business borrower, external guarantee provided by R.O.C SMEG fund approved by government is one of the eligible guarantees.

f. Concentrations Risk Management

Besides periodic and intermittent monitoring of various risk components' credit risk exposure via different relevant credit risk management reports, the Bank and its subsidiaries have risk limit control mechanism, effective after approval by the board of directors, at the risk level of asset portfolio and singular conglomerate, considering that changes in external macro environment are likely to introduce concentration risk from clientele of the same characteristics.

Dimensions of limit ceiling monitoring include country risk, high risk grade obligors, product types, industry, pre-settlement limit, project limit, collateral, package, concentration in a single related-party and trading counterparty, and so on.

E. Maximum exposure to credit risk

Without taking collateral or other credit enhancement mitigation effect into account, the maximum exposure to credit risk of on-balance-sheet financial assets is equal to their carrying values.

Please refer to Note 6 (AR)(3)G. for off-balance sheet financial instruments' maximum exposure to credit risks maturity analysis.

F. Concentrations of credit risk

Significant concentrations of credit risk occur when there are exposures, significant enough to threaten a Bank's security or its ability to maintain core businesses, to an individual counterparty to a transaction or a number of related counterparties engage in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentrations of credit risk originate from assets, liabilities, and off-balance-sheet items by means of performing an obligation to deliver products or service, execution of a trade, or combination of cross-classification exposures. The Bank and its subsidiaries have proper internal policies, systems, and controls to recognize, measure, monitor, and control concentrations of credit risk. The following table illustrates the diversification of the loan portfolio among industry sectors, geographical regions and collateral types of the Bank and its subsidiaries.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**a. By Industry**

December 31, 2013									
	<b>Individual</b>		<b>Public Sector</b>	<b>High Tech</b>	<b>Real Estate</b>	<b>Manufacturing</b>	<b>Financial</b>		<b>Total</b>
	<b>Clients</b>	<b>Service</b>					<b>Institution</b>	<b>Others</b>	
Receivables—credit card	\$ 58,839,549	-	-	-	-	-	-	-	58,839,549
Receivables—Factoring	-	1,509,709	1,274	15,842,638	-	1,448,009	66,249,362	184,403	85,235,395
Loans									
-Consumer loans	456,158,201	-	-	-	-	-	-	-	456,158,201
-Corporate loans	45,056,229	37,646,601	172,578,515	69,528,978	36,658,558	70,037,929	15,980,071	23,188	447,510,069
-Micro-business loans	9,351,356	600,924	-	123,158	152,592	295,316	33,867	592,934	11,150,147
-Foreign currency loans	15,793,402	77,954,745	3,749,310	51,366,542	54,636,619	130,178,219	33,429,423	3,747,495	370,855,755
-Non-accrual loans	953,223	1,465,895	-	1,012,541	35,871	998,497	177,737	33,896	4,677,660
-Adjustment of discount and premium	(96,068)	(163,456)	(2,016)	(45,911)	(80,907)	(148,821)	(60,206)	(272,186)	(869,571)
Other financial assets	114,527	-	-	-	96,105	-	-	-	210,632
<b>Total</b>	<b>\$ 586,170,419</b>	<b>119,014,418</b>	<b>176,327,083</b>	<b>137,827,946</b>	<b>91,498,838</b>	<b>202,809,149</b>	<b>115,810,254</b>	<b>4,309,730</b>	<b>1,433,767,837</b>

December 31, 2013				
	<b>Public Sector</b>	<b>Corporate</b>	<b>Financial Institution</b>	<b>Total</b>
Available-for-sale financial assets—debt securities	\$ 286,332,996	187,672	3,514,483	290,035,151
Derivative financial assets—hedging	-	-	910,113	910,113
Held-to-maturity financial assets	47,906,201	3,238,906	10,138,634	61,283,741
<b>Total</b>	<b>\$ 334,239,197</b>	<b>3,426,578</b>	<b>14,563,230</b>	<b>352,229,005</b>

December 31, 2012									
	<b>Individual</b>		<b>Public Sector</b>	<b>High Tech</b>	<b>Real Estate</b>	<b>Manufacturing</b>	<b>Financial</b>		<b>Total</b>
	<b>Clients</b>	<b>Service</b>					<b>Institution</b>	<b>Others</b>	
Receivables—credit card	\$ 58,975,523	-	-	-	-	-	-	-	58,975,523
Receivables—Factoring	-	1,091,311	982	20,615,801	-	902,775	37,248,165	2,926	59,861,960
Loans									
-Consumer loans	413,824,977	-	-	-	-	11,000	-	-	413,835,977
-Corporate loans	34,982,825	33,960,308	175,427,993	67,856,450	30,142,111	67,509,611	16,135,537	8,200	426,023,035
-Micro-business loans	7,572,971	225,188	-	37,631	19,645	110,793	5,000	799,328	8,770,556
-Foreign currency loans	12,831,330	56,821,065	5,305,248	37,728,835	36,442,582	104,258,238	29,765,356	1,875,806	285,028,460
-Non-accrual loans	1,216,871	170,591	-	1,963,600	181,979	728,083	171,937	35,404	4,468,465
-Adjustment of discount and premium	(216,887)	(74,691)	(3,068)	(31,906)	(82,181)	(135,607)	(83,798)	(182,413)	(810,551)
Other financial assets	138,020	6,541	-	-	361,666	-	-	-	506,227
<b>Total</b>	<b>\$ 529,325,630</b>	<b>92,200,313</b>	<b>180,731,155</b>	<b>128,170,411</b>	<b>67,065,802</b>	<b>173,384,893</b>	<b>83,242,197</b>	<b>2,539,251</b>	<b>1,256,659,652</b>

December 31, 2012				
	<b>Public Sector</b>	<b>Corporate</b>	<b>Financial Institution</b>	<b>Total</b>
Available-for-sale financial assets—debt securities	\$ 295,536,516	424,268	211,707	296,172,491
Derivative financial assets—hedging	-	-	1,577,954	1,577,954
Held-to-maturity financial assets	61,895,799	5,658,383	3,420,278	70,974,460
<b>Total</b>	<b>\$ 357,432,315</b>	<b>6,082,651</b>	<b>5,209,939</b>	<b>368,724,905</b>

January 1, 2012									
	<b>Individual</b>		<b>Public Sector</b>	<b>High Tech</b>	<b>Real Estate</b>	<b>Manufacturing</b>	<b>Financial</b>		<b>Total</b>
	<b>Clients</b>	<b>Service</b>					<b>Institution</b>	<b>Others</b>	
Receivables—credit card	\$ 57,515,646	-	-	-	-	-	-	-	57,515,646
Receivables—Factoring	-	5,709,739	30,893	30,401,342	-	6,013,010	7,653,171	-	49,808,155
Loans									
-Consumer loans	405,949,411	-	-	-	-	-	-	-	405,949,411
-Corporate loans	105,490	60,948,877	130,293,969	68,746,405	23,756,107	62,884,364	26,619,872	9,588	373,364,672
-Micro-business loans	12,644,858	-	-	-	-	-	-	1,471,860	14,116,718
-Foreign currency loans	10,067,618	45,749,910	17,296,805	38,591,381	33,255,936	97,723,668	24,694,321	2,458,493	269,838,132
-Non-accrual loans	1,260,476	513,642	-	38,030	323,044	648,045	-	48,195	2,831,432
-Adjustment of discount and premium	(113,329)	(44,991)	-	(38,894)	(27,300)	(62,743)	(46,691)	(240,221)	(574,169)
Other financial assets	165,984	14,391	-	-	526,766	-	-	-	707,141
<b>Total</b>	<b>\$ 487,596,154</b>	<b>112,891,568</b>	<b>147,621,667</b>	<b>137,738,264</b>	<b>57,834,553</b>	<b>167,206,344</b>	<b>58,920,673</b>	<b>3,747,915</b>	<b>1,173,557,138</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>January 1, 2012</b>			
	<b>Public Sector</b>	<b>Corporate</b>	<b>Financial Institution</b>	<b>Total</b>
Available-for-sale financial assets—debt securities	\$ 300,180,917	2,571,308	6,071,319	308,823,544
Derivative financial assets—hedging	-	-	2,067,772	2,067,772
Held-to-maturity financial assets	85,524,848	5,960,718	4,455,765	95,941,331
Other financial assets—debt investment without active market	-	242,107	-	242,107
<b>Total</b>	<b>\$ 385,705,765</b>	<b>8,774,133</b>	<b>12,594,856</b>	<b>407,074,754</b>

**b. By Area**

	<b>December 31, 2013</b>				
	<b>Taiwan</b>	<b>North America</b>	<b>Asia (excluding Taiwan)</b>	<b>Others</b>	<b>Total</b>
Available-for-sale financial assets—debt securities	\$ 273,789,800	8,377,091	6,631,909	1,236,351	290,035,151
Derivative financial assets—hedging	91,326	-	-	818,787	910,113
Receivables—credit card	58,839,549	-	-	-	58,839,549
Receivables—factoring	7,167,308	795,008	76,006,872	1,266,207	85,235,395
<b>Loans</b>					
Consumer finance					
— Mortgage loans	360,320,143	-	-	-	360,320,143
— Automobile loans	1,665	-	-	-	1,665
— Consumer loans	95,836,393	-	-	-	95,836,393
Corporate finance					
— Corporate loans	446,552,311	-	957,758	-	447,510,069
— Micro-business loans	11,150,147	-	-	-	11,150,147
Foreign currency loans	57,751,158	65,141,819	238,220,766	9,742,012	370,855,755
Non-accrual loans	3,444,643	68,997	1,164,020	-	4,677,660
Adjustment of discount and premium	(261,811)	(19,684)	(302,884)	(285,192)	(869,571)
Held-to-maturity financial assets	43,427,131	-	15,414,810	2,441,800	61,283,741
Other financial assets	114,527	96,105	-	-	210,632
<b>Total</b>	<b>\$ 1,358,224,290</b>	<b>74,459,336</b>	<b>338,093,251</b>	<b>15,219,965</b>	<b>1,785,996,842</b>



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>December 31, 2012</b>				
	<b>Taiwan</b>	<b>North America</b>	<b>Asia (excluding Taiwan)</b>	<b>Others</b>	<b>Total</b>
Available-for-sale financial assets—debt securities	\$ 285,822,716	6,748,171	3,405,269	196,335	296,172,491
Derivative financial assets—hedging	144,894	-	-	1,433,060	1,577,954
Receivables—credit card	58,975,523	-	-	-	58,975,523
Receivables—factoring	11,525,414	1,968,335	44,337,272	2,030,939	59,861,960
Loans					
Consumer finance					
— Mortgage loans	324,255,280	-	-	-	324,255,280
— Automobile loans	2,401	-	-	-	2,401
— Consumer loans	89,578,296	-	-	-	89,578,296
Corporate finance					
— Corporate loans	425,638,862	-	384,173	-	426,023,035
— Micro-business loans	8,770,556	-	-	-	8,770,556
Foreign currency loans	43,453,678	49,040,763	180,366,809	12,167,210	285,028,460
Non-accrual loans	2,952,503	217,583	864,978	433,401	4,468,465
Adjustment of discount and premium	(313,719)	(19,514)	(265,611)	(211,707)	(810,551)
Held-to-maturity financial assets	55,820,032	-	15,154,428	-	70,974,460
Other financial assets	144,562	361,665	-	-	506,227
<b>Total</b>	<b>\$ 1,306,770,998</b>	<b>58,317,003</b>	<b>244,247,318</b>	<b>16,049,238</b>	<b>1,625,384,557</b>

	<b>January 1, 2012</b>				
	<b>Taiwan</b>	<b>North America</b>	<b>Asia (excluding Taiwan)</b>	<b>Others</b>	<b>Total</b>
Available-for-sale financial assets—debt securities	\$ 289,091,862	11,998,917	4,705,098	3,027,667	308,823,544
Derivative financial assets—hedging	202,626	1,865,146	-	-	2,067,772
Receivables—credit card	57,515,646	-	-	-	57,515,646
Receivables—factoring	13,293,653	5,413,493	29,631,668	1,469,341	49,808,155
Loans					
Consumer finance					
— Mortgage loans	314,950,401	-	-	-	314,950,401
— Automobile loans	2,985	-	-	-	2,985
— Consumer loans	90,996,025	-	-	-	90,996,025
Corporate finance					
— Corporate loans	372,613,519	20,000	731,153	-	373,364,672
— Micro-business loans	14,116,718	-	-	-	14,116,718
Foreign currency loans	52,231,415	45,066,706	161,869,803	10,670,208	269,838,132
Non-accrual loans	1,430,562	358,555	815,045	227,270	2,831,432
Adjustment of discount and premium	(163,412)	(17,196)	(135,325)	(258,236)	(574,169)
Held-to-maturity financial assets	79,809,853	308,493	14,611,620	1,211,365	95,941,331
Other financial assets	180,375	526,766	-	242,107	949,248
<b>Total</b>	<b>\$ 1,286,272,228</b>	<b>65,540,880</b>	<b>212,229,062</b>	<b>16,589,722</b>	<b>1,580,631,892</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**

### G. Credit quality and impairment analysis of financial assets

Some financial assets held by the Bank and its subsidiaries, such as cash and equivalent cash, due from central bank, call loans to banks, financial assets measured at fair value through profit or loss, securities purchased under reverse repurchase agreements, refundable deposits, operational guarantee deposits, and settlement fund, are excluded from this analysis since the counterparty is normally with good credit quality and can be considered as low credit risk. Below tables provide the credit quality analysis for other financial assets.

	December 31, 2013											
	Neither Past due nor impaired				Past due not impaired				Individually assessed impaired(C)	Collectively assessed impaired(D)	Impairment allowances(E)	Total(A)+(B)+(C)+(D)+(E)
	Investment grade	Sub-investment grade	High Risk Grade	Subtotal(A)	Investment grade	Sub-investment grade	High Risk Grade	Subtotal(B)				
— Available-for-sale financial assets — debt securities	\$ 237,080,176	52,429,568	-	289,509,744	-	-	-	-	525,407	-	21,246	290,013,905
Derivative financial assets — hedging	910,113	-	-	910,113	-	-	-	-	-	-	-	910,113
Receivables — credit card	43,788,883	8,086,983	2,107,893	53,983,759	128,795	123,955	291,537	544,287	-	4,311,503	1,325,701	57,513,848
Receivables — factoring	60,817,560	19,259,503	4,452,154	84,529,217	317,088	50,868	276,413	644,369	61,809	-	115,840	85,119,555
Loans												
Consumer finance												
— Mortgage loans	342,550,092	5,190,302	682,471	348,422,865	1,703,420	1,293,595	587,353	3,584,368	-	8,312,910	1,749,063	358,571,080
— Automobile loans	-	-	-	-	-	-	-	-	-	1,665	184	1,481
— Consumer loans	66,485,596	15,143,238	3,112,347	84,741,181	434,184	581,994	1,000,397	2,016,575	-	9,078,637	2,749,221	93,087,172
Corporate finance												
— Corporate loans	245,788,792	134,066,103	53,859,304	433,714,199	-	59,075	67,072	126,147	13,669,723	-	2,147,731	445,362,338
— Micro-business loans	7,878,857	2,061,849	745,067	10,685,773	8,519	-	3,325	11,844	4,198	448,332	11,118	11,139,029
Foreign currency loans	89,343,311	200,688,963	76,757,420	366,789,694	47,956	194,191	711,220	953,367	3,001,782	110,912	2,445,188	368,410,567
Non-accrual loans	-	-	-	-	-	-	-	-	3,727,609	950,051	1,902,616	2,775,044
Adjustment of discount and premium	(245,150)	(480,954)	(112,921)	(839,025)	226	10	6,635	6,871	(43,594)	6,177	(1,056)	(868,515)
Held-to-maturity financial assets — net	41,842,818	19,329,685	-	61,172,503	-	-	-	-	451	110,787	8,807	61,274,934
Other financial assets	-	-	-	-	-	-	-	-	96,105	114,527	99,004	111,628
Total	\$ 1,136,241,048	455,775,240	141,603,735	1,733,620,023	2,640,188	2,303,688	2,943,952	7,887,828	21,043,490	23,445,501	12,574,663	1,773,422,179

Note: The balances of impairment allowance, as shown above, are in compliance with the IFRSs endorsed by FSC.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**

December 31, 2012									
Item	Neither Past due nor impaired				Past due not impaired				Total(A)+(B)+ (C)+(D)-(E)
	Investment grade	Sub-investment grade	High Risk Grade	Subtotal(A)	Investment grade	Sub-investment grade	High Risk Grade	Subtotal(B)	
Available-for-sale financial assets – debt securities	\$ 241,234,746	54,435,156	-	295,669,902	-	-	-	-	296,151,443
Derivative financial assets – hedging	120,669	1,457,285	-	1,577,954	-	-	-	-	1,577,954
Receivables – credit card	45,479,139	7,409,801	1,028,856	53,917,796	149,971	138,305	271,307	559,583	57,458,899
Receivables – factoring	44,605,263	14,093,829	190,029	58,889,121	753,562	134,263	23,205	911,030	59,781,405
Loans									
Consumer finance									
– Mortgage loans	295,074,204	7,293,847	3,303,924	305,671,975	12,244,001	1,564,024	2,085,726	15,893,751	322,744,836
– Automobile loans	-	-	49	49	-	-	-	-	712
– Consumer loans	62,439,127	12,623,160	1,394,639	76,456,926	2,553,612	990,326	816,442	4,360,380	86,585,549
Corporate finance									
– Corporate loans	245,021,448	124,758,390	39,905,963	409,685,801	-	289,133	89,994	379,127	423,417,707
– Micro-business loans	6,964,065	1,045,799	423,546	8,433,410	290,412	15,150	10,426	315,988	8,742,132
Foreign currency loans	74,032,916	146,981,650	58,845,354	279,859,920	60,599	488,628	1,215,249	1,764,476	283,037,220
Non-accrual loans	-	-	-	-	-	-	-	-	2,195,090
Adjustment of discount and premium	(373,564)	(313,209)	(90,233)	(777,006)	-	(440)	(35)	(475)	(810,551)
Held-to-maturity financial assets – net	51,991,475	18,866,920	-	70,858,395	-	-	-	-	70,965,629
Other financial assets	-	-	-	-	-	-	-	-	340,962
Total	\$ 1,066,589,488	388,652,628	105,002,127	1,560,244,243	16,052,157	3,619,389	4,512,314	24,183,860	1,612,189,964

Note: The balances of impairment allowance, as shown above, are in compliance with the IFRSs endorsed by FSC.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**

January 1, 2012

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**H. Aging analysis on past due but not impaired financial assets**

Past due but not impaired loans might result from some temporary administration reasons so the customer is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown the potential loss, according to internal credit risk assets impairment evaluation guideline, a less than 90-day past due loan is typically not to be treated as impairment.

<b>December 31, 2013</b>					
	<b>Up to 1 month</b>	<b>1-2 months</b>	<b>2-3 months</b>	<b>Over 3 months</b>	<b>Total</b>
Receivables					
-Credit cards	\$ 395,775	104,313	44,199	-	544,287
- Factoring	564,552	51,397	19,898	8,522	644,369
Loans					
Consumer finance					
-Mortgage loans	3,324,899	201,848	57,621	-	3,584,368
-Consumer loans	1,671,219	243,544	101,812	-	2,016,575
Corporate finance					
-Corporate loans	126,147	-	-	-	126,147
-Micro-business loans	9,245	2,599	-	-	11,844
Foreign currency loans	617,973	254,379	81,015	-	953,367
Adjustment of discount and premium	4,076	2,180	615	-	6,871
<b>Total</b>	<b>\$ 6,713,886</b>	<b>860,260</b>	<b>305,160</b>	<b>8,522</b>	<b>7,887,828</b>

<b>December 31, 2012</b>					
	<b>Up to 1 month</b>	<b>1-2 months</b>	<b>2-3 months</b>	<b>Over 3 months</b>	<b>Total</b>
Receivables					
-Credit cards	\$ 380,701	116,996	61,886	-	559,583
- Factoring	682,039	126,476	4,747	97,768	911,030
Loans					
Consumer finance					
-Mortgage loans	15,126,103	566,551	201,097	-	15,893,751
-Consumer loans	3,889,132	313,310	157,938	-	4,360,380
Corporate finance					
-Corporate loans	379,127	-	-	-	379,127
-Micro-business loans	312,657	3,331	-	-	315,988
Foreign currency loans	1,058,446	579,051	126,979	-	1,764,476
Adjustment of discount and premium	(475)	-	-	-	(475)
<b>Total</b>	<b>\$ 21,827,730</b>	<b>1,705,715</b>	<b>552,647</b>	<b>97,768</b>	<b>24,183,860</b>

<b>January 1, 2012</b>					
	<b>Up to 1 month</b>	<b>1-2 months</b>	<b>2-3 months</b>	<b>Over 3 months</b>	<b>Total</b>
Receivables					
-Credit cards	\$ 340,353	119,991	63,900	-	524,244
- Factoring	432,302	33,360	1,483	6,868	474,013
Loans					
Consumer finance					
-Mortgage loans	5,446,459	785,294	299,665	-	6,531,418
-Consumer loans	1,777,980	287,329	158,491	-	2,223,800
Corporate finance					
-Corporate loans	62,221	-	-	60,748	122,969
-Micro-business loans	46,986	9,507	598	-	57,091
Foreign currency loans	1,426,965	251,454	86,707	3,826	1,768,952
Adjustment of discount and premium	(456)	10	-	-	(446)
<b>Total</b>	<b>\$ 9,532,810</b>	<b>1,486,945</b>	<b>610,844</b>	<b>71,442</b>	<b>11,702,041</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**I. Impairment analysis on impaired financial assets**

	<b>December 31, 2013</b>				
	<b>Individually assessed impaired exposure</b>	<b>Collectively assessed impaired exposure</b>	<b>Individually assessed impairment allowances</b>	<b>Collectively assessed impairment allowances</b>	<b>Net impaired Exposure</b>
Available-for-sale financial assets-debt investment	\$ 525,407	-	21,246	-	504,161
Receivables					
-Credit cards	-	4,311,503	-	566,516	3,744,987
- Factoring	61,809	-	61,809	-	-
Loans					
Consumer finance					
-Mortgage loans	-	8,312,910	-	762,515	7,550,395
-Automobile loans	-	1,665	-	184	1,481
-Consumer loans	-	9,078,637	-	1,285,231	7,793,406
Corporate finance					
-Corporate loans	13,669,723	-	1,772,382	-	11,897,341
-Micro-business loans	4,198	448,332	2,119	1,861	448,550
Foreign currency loans	3,001,782	110,912	546,307	7,483	2,558,904
Non-accrual loans	3,727,609	950,051	1,418,818	663,663	2,595,179
Adjustment of discount and premium	(43,594)	6,177	-	-	(37,417)
Held-to-maturity financial assets — net	451	110,787	451	8,356	102,431
Other financial assets	96,105	114,527	-	99,004	111,628
<b>Total</b>	<b>\$ 21,043,490</b>	<b>23,445,501</b>	<b>3,823,132</b>	<b>3,394,813</b>	<b>37,271,046</b>

	<b>December 31, 2012</b>				
	<b>Individually assessed impaired exposure</b>	<b>Collectively assessed impaired exposure</b>	<b>Individually assessed impairment allowances</b>	<b>Collectively assessed impairment allowances</b>	<b>Net impaired Exposure</b>
Available-for-sale financial assets-debt investment	\$ 502,589	-	21,048	-	481,541
Receivables					
-Credit cards	-	4,498,144	-	920,759	3,577,385
- Factoring	61,809	-	61,809	-	-
Loans					
Consumer finance					
-Mortgage loans	-	2,689,554	-	78,747	2,610,807
-Automobile loans	-	2,352	-	711	1,641
-Consumer loans	-	8,763,990	-	1,881,780	6,882,210
Corporate finance					
-Corporate loans	15,958,107	-	2,380,936	-	13,577,171
-Micro-business loans	-	21,158	-	3,396	17,762
Foreign currency loans	3,324,727	79,337	502,338	5,107	2,896,619
Non-accrual loans	3,271,375	1,197,090	1,513,288	760,087	2,195,090
Adjustment of discount and premium	(43,525)	10,455	-	-	(33,070)
Held-to-maturity financial assets — net	475	115,590	475	8,356	107,234
Other financial assets	368,207	138,020	52,305	112,960	340,962
<b>Total</b>	<b>\$ 23,443,764</b>	<b>17,515,690</b>	<b>4,532,199</b>	<b>3,771,903</b>	<b>32,655,352</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	January 1, 2012				
	Individually assessed impaired exposure	Collectively assessed impaired exposure	Individually assessed impairment allowances	Collectively assessed impairment allowances	Net impaired Exposure
Available-for-sale financial assets-debt investment	\$ 488,575	-	22,107	-	466,468
Receivables					
-Credit cards	-	5,183,601	-	1,073,076	4,110,525
- Factoring	61,809	-	51,809	-	10,000
Loans					
Consumer finance					
-Mortgage loans	-	3,423,367	-	96,579	3,326,788
-Automobile loans	-	2,924	-	914	2,010
-Consumer loans	-	9,378,969	-	2,015,238	7,363,731
Corporate finance					
-Corporate loans	9,800,003	-	3,882,390	-	5,917,613
-Micro-business loans	-	18,467	-	5,230	13,237
Foreign currency loans	2,119,174	395,088	651,516	114	1,862,632
Non-accrual loans	1,615,074	1,216,358	429,971	791,511	1,609,950
Adjustment of discount and premium	(31,248)	(4,619)	-	-	(35,867)
Held-to-maturity financial assets— net	462	121,861	462	8,356	113,505
Other financial assets	541,157	165,984	85,133	119,391	502,617
Total	<u>\$ 14,595,006</u>	<u>19,902,000</u>	<u>5,123,388</u>	<u>4,110,409</u>	<u>25,263,209</u>

**J. Foreclosed properties**

Foreclosed properties of the Bank and its subsidiaries are classified under other assets. Please refer to Note 6(Q).

**K. Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks**

**a. Asset quality of the Bank and its subsidiaries' non-performing loans and overdue receivables**

**(A) Asset quality of the Bank and its subsidiaries**

Unit : In Thousands of New Taiwan Dollars , %

Month/Year			December 31, 2013				
			Non-performing loans	Total loans	Non-performing loans ratio	Allowance for credit losses	Coverage ratio
Corporate finance	Secured		2,745,627	245,085,772	1.12%	9,564,169	248.02%
	Unsecured (Note 11)		1,110,601	572,065,733	0.19%		
Consumer	Residential mortgages		245,280	342,886,357	0.07%	3,389,152	1,381.75%
	Cash cards		27,197	2,783,191	0.98%	261,282	960.70%
	Micro-credit loans	Original	560,660	83,700,679	0.67%	3,320,157	592.19%
		Purchase	63	792	7.95%	4	6.35%
	Others	Secured	15,617	39,013,260	0.04%	566,631	206.45%
		Unsecured	258,851	4,816,048	5.37%		
Total loan business			4,963,896	1,290,351,832	0.38%	17,101,395	344.52%
			Overdue receivables	Balance of receivables	Delinquency ratio	Allowance for credit losses	Coverage ratio
Credit cards business			110,915	58,909,453	0.19%	1,422,632	1,282.63%
Without-recourse factoring			-	85,235,395	- %	461,572	- %
			Non-performing loans held for sale	Total loans held for sale	Non-performing loans ratio	Allowance for credit losses	Coverage ratio
Other financial assets— loans held for sale (Note 1)			96,105	96,105	(Note1)	(Note1)	(Note1)



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Month/Year			December 31, 2012				
			Non-performing loans	Categories/Items	Non-performing loans	Categories/Items	Non-performing loans
Categories/Items							
Corporate finance	Secured		2,708,357	192,963,163	1.40%	6,394,136	193.48%
	Unsecured (Note 11)		596,429	517,451,143	0.12%		
Consumer	Residential mortgages		404,703	313,303,192	0.13%	1,692,448	418.20%
	Cash cards		34,473	3,509,677	0.98%	555,015	1,610.00%
	Micro-credit loans	Original	638,635	78,936,776	0.81%	2,918,703	457.02%
		Purchase	67	834	8.03%	-	- %
	Others	Secured	53,499	26,755,381	0.20%	394,968	118.78%
		Unsecured	279,028	5,206,327	5.36%		
Total loan business			4,715,191	1,138,126,493	0.41%	11,955,270	253.55%
			Overdue receivables	Balance of receivables	Delinquency ratio	Allowance for credit losses	Coverage ratio
Credit cards business			133,881	59,099,693	0.23%	1,627,059	1,215.30%
Without-recourse factoring			-	59,861,960	- %	80,555	- %
			Non-performing loans held for sale	Total loans held for sale	Non-performing loans ratio	Allowance for credit losses	Coverage ratio
Other financial assets— loans held for sale (Note 1)			213,941	312,945	(Note1)	(Note1)	(Note1)

Note 1: Other financial assets — loans held for sale are the portion of creditor's rights that the Bank's subsidiary CTBC Bank Corp. (USA) intended to sell. As the purpose of holding those creditor's rights has changed, these loans held for sale are accounted for under financial assets and valued using the lower-of-cost-or-market method. The loans held by CCC were held for sale; please refer to Note 6(N) for more information.

Note 2: Non-performing loans represent the amount of overdue loans as reported in accordance with the "Regulations on the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non-performing Loans." The credit card overdue loans represent the amount of overdue loans as reported in accordance with Jin-Kuan-Yin-(4)-Zi No. 0944000378, dated July 6, 2005.

Note 3: Non-performing loans ratio = Non-performing loans ÷ total loans;  
Credit card delinquency ratio = Overdue receivables ÷ balance of receivables.

Note 4: Coverage ratio for loans = allowance for credit losses ÷ non-performing loans; Coverage ratio for credit card = allowance for credit losses ÷ overdue receivables.

Note 5: For residential mortgage loans, a borrower provides his/her (or spouse's or minor child's) house as collateral in full and pledges it to the financial institution for the purpose of obtaining funds to purchase property and to construct or repair a house.

Note 6: Microcredit loans are defined by Jin-Kuan-Yin-(4)-Zi No. 09440010950, dated December 19, 2005, and do not include credit cards or cash cards.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Note 7: Others in consumer finance are secured and unsecured consumer loans other than residential mortgage loans, cash cards, and microcredit loans, and do not include credit cards.

Note 8: In accordance with Jin-Kuan-Yin-(5)-Zi No. 094000494, dated July 19, 2005, the amounts of without-recourse factoring will be classified as overdue receivables within 3 months after the date that suppliers or insurance companies resolve not to compensate the loss.

Note 9: The balances of impairment allowance, as shown above, are calculated in accordance with the IFRSs endorsed by FSC and “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans,” and other related regulations. Additionally, the amounts exclude non-accrual loans arising from guarantees. Related allowance for credit losses is recognized under provisions.

Note 10: Supplemental disclosures:

The information below shows supplemental disclosures of the Bank’s loans and receivables that may be exempted from reporting as non-performing loans and overdue receivables, respectively.

Unit : In Thousands of New Taiwan Dollars

	December 31, 2013		December 31, 2012	
	Loans that may be exempted from reporting as a non-performing loan	Receivables that may be exempted from reporting as overdue receivables	Loans that may be exempted from reporting as a non-performing loan	Receivables that may be exempted from reporting as overdue receivables
Pursuant to a contract under a debt negotiation plan (Note 1)	196,058	94,119	256,614	108,695
Pursuant to a contract under a debt liquidation plan and a debt relief plan (Note 2)	443,853	74,685	329,868	75,635
Total	639,911	168,804	586,482	184,330

Note 1: In accordance with Jin-Kuan-Yin-(1)-Zi No. 09510001270, dated April 25, 2006, a bank is required to make supplemental disclosure of credit information which was approved under the “debt coordination mechanism of unsecured consumer debts by the Bankers Association of the R.O.C”.

Note 2: In accordance with Jin-Kuan-Yin-(1)-Zi No. 09700318940, dated September 15, 2008, a bank is required to make supplemental disclosure of credit information once debtors apply for pre-negotiation, relief and liquidation under the “Consumer Debt Clearance Act.”

Note 11: Those loans that are not 100% backed by collateral are classified as unsecured.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

b. Concentration of the Bank's credit extensions

Unit : In Thousands of New Taiwan Dollars , %

<b>December 31, 2013</b>			
<b>Ranking</b>	<b>Enterprise group by industry sector</b>	<b>Credit amount</b>	<b>Credit amount/ stockholders' equity (%)</b>
1	A group. Liquid crystal panel and components manufacturing	16,767,451	11.42%
2	B group. Liquid crystal panel and components manufacturing	10,192,049	6.94%
3	C group. Marine shipping	7,766,305	5.29%
4	D group. Print circuits manufacturing	7,371,852	5.02%
5	E group. Computer manufacturing	6,731,288	4.58%
6	F group. Other retail sale	6,742,830	4.41%
7	G group. Petroleum and chemical industry material manufacturing	6,132,040	4.18%
8	H group. Integrated circuits manufacturing	5,856,586	3.99%
9	I group. Petroleum and coal products manufacturing	5,720,000	3.90%
10	J group. Cement products manufacturing	5,624,290	3.83%

<b>December 31, 2012</b>			
<b>Ranking</b>	<b>Ranking</b>	<b>Ranking</b>	<b>Ranking</b>
1	A group. Liquid crystal panel and components manufacturing	19,378,822	13.79%
2	G group. Petroleum and coal products manufacturing	13,354,699	9.51%
3	B group. Liquid crystal panel and components manufacturing	11,400,557	8.11%
4	D group. Integrated circuits manufacturing	7,386,394	5.26%
5	C group. Marine shipping	7,306,209	5.20%
6	H group. Integrated circuits manufacturing	6,990,640	4.98%
7	F group. Other unclassified financial agency	6,568,636	4.68%
8	I group. Petroleum and coal products manufacturing	6,025,000	4.29%
9	J group. Cement products manufacturing	5,924,561	4.22%
10	K group. Security Services	4,977,123	3.54%

Note 1: The top ten enterprise groups other than government or state-owned enterprises are ranked according to their total outstanding credit amount. If the borrowers belong to an enterprise group, the aggregate credit balance of the enterprise should be calculated and disclosed as a code number for each such borrower together with an indication of the borrowers' line of business. In addition, if the borrowers are enterprise groups, the enterprise group's industry sector with the maximum exposure to credit risk in its main industry sector should be disclosed, along with the "class" of the industry, in compliance with the Standard Industrial Classification System of the R.O.C. posted by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C.

Note 2: Enterprise group is as defined in Article 6 of the "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings."

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Note 3: The total outstanding credit amount is the sum of the balances of all loan types (including import and export bill negotiations, loans, overdrafts, short/medium/long-term secured and unsecured loans, margin loans receivable, and non-accrual loans), bills purchased, without-recourse factoring, acceptances receivable, and guarantees receivable.

3. Liquidity Risk Management Mechanism

A. Definition and sources of liquidity risk

Liquidity risk of the Bank and its subsidiaries refers to the risk of inability to obtain funds at a reasonable cost within a reasonable timeframe to meet financial obligations, and thus impact the Bank and its subsidiaries' profits or economic value.

Liquidity risk may stem from external and internal factors, such as undermined payment capability caused by financial market volatility, early withdraws and concerns of creditors or depositors over the Bank's ability to meet payment obligations due to credit, market or operational risk.

B. Objectives of liquidity risk management

There is cost associated with the level of liquidity. Liquidity risk management for the Bank and its subsidiaries aims to satisfy funding needs and maximize profits by allocating assets and liabilities in the most cost effective way within the approved risk tolerance.

C. Management procedures and risk measurement of liquidity risk

Based on asset and liability management policy, the Bank and its subsidiaries set robust management procedures and risk measurement to identify, measure, monitor, and report the liquidity risk. By periodically monitoring the liquidity limit approved by the Board, continuously conducting the development and application of quantitative risk assessment tools, and studying liquidity related issues, the liquidity risk is properly managed. The Bank and its subsidiaries set various limits for managing liquidity risk, including the degree of maturity mismatch on assets and liabilities, funding concentration, and liquidity ratios to assure the Bank and its subsidiaries maintain adequate liquidity status to accommodate cash outflow and financial obligations.

Funding Management Unit is entrusted the responsibility to centrally manage the liquidity risk of the Bank and its subsidiaries, and to act as sole window to engage in funding activities. The risk management unit will monitor the liquidity risk independently. The main responsibilities of funding management unit are as follows:

- a. Keep abreast of market condition/trend, and adjust liquidity gap to conform to approved risk limits using financial instruments with appropriate allocations in amount and maturity.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- b. Maintain adequate stock of liquid assets to meet regulatory requirements and to fulfill the obligations.
- c. Diversify funding instruments and counterparties in order to prevent overdependence on specific funding sources.
- d. Activate Contingency Funding Plan (CFP) and adjust positions when a liquidity crisis is detected.

The liquidity risk monitoring unit periodically conducts the risk reports, which contain the analysis of limit usage and liquidity risk indicators. The risk report with supporting stress test result will periodically be submitted to related risk management meetings. The Bank and its subsidiaries measure liquidity risks by following tools:

- a. Maturity gap analysis: Analyzing maturity mismatch will help understand cash flow gap by time bucket. Liquidity risk could be measured by this analysis together with an assessment of the funding capacity.
- b. Liquidity risk heat map: Liquidity risk indicators can be further developed into an easily understandable map to facilitate systematic monitoring and to effectively highlight changes, causes and impact.
- c. Stress test: The test assesses the liquidity impact from extreme scenarios and allows management to take precautionary measures in anticipation of potential liquidity problems.

**D. Risk mitigation and hedge of liquidity risk**

Through liquidity risk management framework, the Bank and its subsidiaries maintain sufficient liquidity status and robust funding structure. By using rigorous liquidity risk measurement and monitoring, the Bank and its subsidiaries can observe potential issues on liquidity risk and report them to risk meeting or executives of financial holding company for discussion and decision making. Therefore, the responsible units can adjust their strategies based on the decision to avoid liquidity risk. Once the risk limit is exceeded, risk management unit will analyze the cause, then report reaction plans and follow-ups to corresponding authority for approval.

In addition, the Bank and its subsidiaries have a Liquidity Contingency Plan as guidance to all units when a liquidity crisis emerges. It aims to resolve the crisis in an effective manner by pulling together all resources available to the Bank and its subsidiaries.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**E. Maturity analysis of non-derivatives liabilities**

Table below shows the analysis of cash outflows of non-derivatives liabilities based on time remaining until the contractual maturity date. The amount disclosed is based on contractual cash flows and may be different from that included in the consolidated balance sheets.

	<b>December 31, 2013</b>					
	<b>0~30 days</b>	<b>31~90 days</b>	<b>91~180 days</b>	<b>181days~1year</b>	<b>Over 1 year</b>	<b>Total</b>
Deposits from Central Bank and other banks	\$ 36,645,466	7,927,138	814,163	2,452,145	570,600	48,409,512
Due to Central Bank and other banks	2,032,365	464,682	35,671	222,014	4,629,298	7,384,030
Non-derivative financial liabilities measured at fair value through profit and loss	1,841	-	-	-	-	1,841
Securities sold under repurchase agreements	57,129,692	3,407,707	468,185	32,610	-	61,038,194
Payables	25,155,203	8,244,511	6,949,784	12,067,292	3,643,960	56,060,750
Current income tax liabilities	-	-	1,420,066	-	-	1,420,066
Deposits and remittances	1,089,214,441	198,189,427	160,183,382	260,675,862	22,906,213	1,731,169,325
Financial debentures	-	-	300,000	3,500,000	53,673,465	57,473,465
Other financial liabilities	1,046,602	1,543,372	1,001,585	1,079,833	10,985,263	15,656,655

	<b>December 31, 2012</b>					
	<b>0~30 days</b>	<b>31~90 days</b>	<b>91~180 days</b>	<b>181days~1year</b>	<b>Over 1 year</b>	<b>Total</b>
Deposits from Central Bank and other banks	\$ 24,831,361	1,426,103	1,245,429	3,187,526	-	30,690,419
Due to Central Bank and other banks	212,691	65,408	129,592	326,178	4,274,732	5,008,601
Non-derivative financial liabilities measured at fair value through profit and loss	7,328	-	-	-	-	7,328
Securities sold under repurchase agreements	58,015,450	2,122,397	639,992	-	-	60,777,839
Payables	27,030,590	6,140,960	11,250,536	16,185,702	5,962,951	66,570,739
Current income tax liabilities	-	-	1,716,717	-	-	1,716,717
Deposits and remittances	986,043,692	161,759,049	125,727,203	235,123,451	16,462,253	1,525,115,648
Financial debentures	-	-	-	450,000	52,118,756	52,568,756
Other financial liabilities	2,947,497	2,682,758	696,217	5,027,122	11,463,443	22,817,037

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	January 1, 2012					
	0~30 days	31~90 days	91~180 days	181days~1year	Over 1 year	Total
Deposits from Central Bank and other banks	\$ 42,829,466	3,570,278	1,454,379	3,509,945	-	51,364,068
Due to Central Bank and other banks	1,719,286	91,331	2,691	1,095,455	4,618,365	7,527,128
Non-derivative financial liabilities measured at fair value through profit and loss	2,029	-	-	-	-	2,029
Securities sold under repurchase agreements	67,345,209	7,061,449	814,311	38,812	-	75,259,781
Payables	21,117,298	5,561,017	15,980,762	14,860,110	7,582,763	65,101,950
Current income tax liabilities	-	-	1,473,534	-	-	1,473,534
Deposits and remittances	901,839,453	210,423,618	129,938,162	201,000,795	16,325,434	1,459,527,462
Financial debentures	-	-	-	-	53,143,145	53,143,145
Other financial liabilities	3,117,445	1,535,725	443,680	696,854	13,380,775	19,174,479

Note: For demand deposits included in “Deposit and remittances”, the amount will be disclosed in the earliest period since such deposits can be withdrawn anytime.

**F. Maturity analysis of derivatives liabilities**

**a. Net settled derivativess**

Net settled derivatives engaged by the Bank and its subsidiaries include but not limited to:

Foreign exchange derivatives: non-deliverable forwards and net settled FX options;

Interest rate derivatives: forward rate agreement, interest rate swaps, and interest rate futures;

Other derivatives: equity options and commodity futures.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For derivatives held by trading purpose, the amount will be disclosed in the earliest period with fair value to reflect the nature of short-term trading behavior; for hedging derivatives, the amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheets. The maturity analysis of net settled derivatives liabilities is as follows:

<b>December 31, 2013</b>						
	<b>0~30 days</b>	<b>31~90 days</b>	<b>91~180 days</b>	<b>181days~1year</b>	<b>Over 1 year</b>	<b>Total</b>
Derivative financial liabilities measured at fair value through profit and loss						
— Foreign exchange derivatives	\$ 4,419,895	-	-	-	-	4,419,895
— Interest rate derivatives	8,759,809	-	-	-	-	8,759,809
— Other derivatives	588,918	-	-	-	-	588,918
Derivative financial liabilities—hedging						
— Foreign exchange derivatives	299,500	748,750	-	-	-	1,048,250
— Interest rate derivatives	31,970	40,277	71,986	143,514	577,456	865,203
<b>Total</b>	<b>\$ 14,100,092</b>	<b>789,027</b>	<b>71,986</b>	<b>143,514</b>	<b>577,456</b>	<b>15,682,075</b>
<b>December 31, 2012</b>						
	<b>0~30 days</b>	<b>31~90 days</b>	<b>91~180 days</b>	<b>181days~1year</b>	<b>Over 1 year</b>	<b>Total</b>
Derivative financial liabilities measured at fair value through profit and loss						
— Foreign exchange derivatives	\$ 2,381,600	-	-	-	-	2,381,600
— Interest rate derivatives	12,957,390	-	-	-	-	12,957,390
— Other derivatives	238,785	-	-	-	-	238,785
Derivative financial liabilities—hedging						
— Foreign exchange derivatives	291,360	728,400	-	-	-	1,019,760
— Interest rate derivatives	31,735	41,411	74,020	147,716	786,399	1,081,281
<b>Total</b>	<b>\$ 15,900,870</b>	<b>769,811</b>	<b>74,020</b>	<b>147,716</b>	<b>786,399</b>	<b>17,678,816</b>
<b>January 1, 2012</b>						
	<b>0~30 days</b>	<b>31~90 days</b>	<b>91~180 days</b>	<b>181days~1year</b>	<b>Over 1 year</b>	<b>Total</b>
Derivative financial liabilities measured at fair value through profit and loss						
— Foreign exchange derivatives	\$ 2,570,035	-	-	-	-	2,570,035
— Interest rate derivatives	17,872,082	-	-	-	-	17,872,082
— Other derivatives	479,403	-	-	-	-	479,403
Derivative financial liabilities—hedging						
— Foreign exchange derivatives	757,250	302,900	-	-	-	1,060,150
— Interest rate derivatives	31,208	45,315	79,931	153,686	1,145,145	1,455,285
<b>Total</b>	<b>\$ 21,709,978</b>	<b>348,215</b>	<b>79,931</b>	<b>153,686</b>	<b>1,145,145</b>	<b>23,436,955</b>



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	January 1, 2012					
	0~30 days	31~90 days	91~180 days	181days~1year	Over 1 year	Total
Derivative financial instruments measured at fair value through profit and loss						
— Foreign exchange derivatives						
— Cash outflow	\$ 661,756,565	691,117,309	331,752,651	169,035,373	41,605,327	1,895,267,225
— Cash inflow	662,600,111	690,747,040	332,812,160	168,544,594	41,859,020	1,896,562,925
Derivative financial liabilities — hedging						
— Foreign exchange derivatives						
— Cash outflow	11,252,144	-	-	-	-	11,252,144
— Cash inflow	11,216,145	-	-	-	-	11,216,145
Cash outflow subtotal	673,008,709	691,117,309	331,752,651	169,035,373	41,605,327	1,906,519,369
Cash inflow subtotal	673,816,256	690,747,040	332,812,160	168,544,594	41,859,020	1,907,779,070
Net cash flow	<u>\$ 807,547</u>	<u>(370,269)</u>	<u>1,059,509</u>	<u>(490,779)</u>	<u>253,693</u>	<u>1,259,701</u>

**G. Maturity analysis of off-balance-sheet items**

Table below shows the maturity analysis of off-balance-sheet items for the Bank and its subsidiaries. The amount of the guarantee and committed credit lines will be allocated to the earliest period when such obligation can be exercised anytime by clients. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheets.

	December 31, 2013					
	0~30 days	31~90 days	91~180 days	181days~1year	Over 1 year	Total
Financial guarantee contracts	\$ 65,105,954	-	-	-	-	65,105,954
Unused amount of irrevocable loan commitments	122,037,088	-	-	-	-	122,037,088
Unused amount of irrevocable letter of credit	16,207,585	-	-	-	-	16,207,585
Unused amount of irrevocable credit card commitments	491,278,173	-	-	-	-	491,278,173
Total	<u>\$ 694,628,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>694,628,800</u>

	December 31, 2012					
	0~30 days	31~90 days	91~180 days	181days~1year	Over 1 year	Total
Financial guarantee contracts	\$ 47,224,971	-	-	-	-	47,224,971
Unused amount of irrevocable loan commitments	88,683,907	-	-	-	-	88,683,907
Unused amount of irrevocable letter of credit	14,991,841	-	-	-	-	14,991,841
Unused amount of irrevocable credit card commitments	477,314,814	-	-	-	-	477,314,814
Total	<u>\$ 628,215,533</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>628,215,533</u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	January 1, 2012					
	0~30 days	31~90 days	91~180 days	181days~1year	Over 1 year	Total
Financial guarantee contracts	\$ 35,531,132	-	-	-	-	35,531,132
Unused amount of irrevocable loan commitments	81,982,805	-	-	-	-	81,982,805
Unused amount of irrevocable letter of credit	15,717,414	-	-	-	-	15,717,414
Unused amount of irrevocable credit card commitments	460,157,048	-	-	-	-	460,157,048
<b>Total</b>	<b>\$ 593,388,399</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>593,388,399</b>

**H. Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks**

**a. Maturity analysis of the Bank's assets and liabilities for New Taiwan Dollars**

December 31, 2013

Unit: In Millions of New Taiwan Dollars

	Total	Amount remaining to maturity date					
		0~10 days	Total	0~10 days	Total	0~10 days	Total
Major cash inflow at maturity	\$ 1,992,348	258,434	332,690	272,778	111,611	266,606	750,229
Major cash outflow at maturity	1,893,777	186,765	216,684	319,747	224,064	279,748	666,769
Gap	98,571	71,669	116,006	(46,969)	(112,453)	(13,142)	83,460

December 31, 2012

Unit: In Millions of New Taiwan Dollars

	Total	Amount remaining to maturity date					
		0~10 days	Total	0~10 days	Total	0~10 days	Total
Major cash inflow at maturity	\$ 2,010,653	277,213	366,029	255,733	167,589	242,891	701,198
Major cash outflow at maturity	1,884,012	163,130	225,919	302,362	266,236	319,325	607,040
Gap	126,641	114,083	140,110	(46,629)	(98,647)	(76,434)	94,158

Note: The above tables refer to the Bank's overall position denominated in NTD.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

b. Maturity analysis of the Bank's assets and liabilities for U.S. Dollars

December 31, 2013

Unit: In Thousands of U.S. Dollars

	Total	Amount remaining to maturity date				Total	0~30 days
		0~30 days	Total	0~30 days	Total		
Major cash inflow at maturity	\$ 49,373,137	19,349,449	12,720,122	7,449,005	5,705,722	4,148,839	
Major cash outflow at maturity	52,431,336	18,615,360	14,773,788	6,669,092	5,751,738	6,621,358	
Gap	(3,058,199)	734,089	(2,053,666)	779,913	(46,016)	(2,472,519)	

December 31, 2012

Unit: In Thousands of U.S. Dollars

	Total	Amount remaining to maturity date				Total	0~30 days
		0~30 days	Total	0~30 days	Total		
Major cash inflow at maturity	\$ 51,008,257	18,609,956	13,968,292	8,904,277	6,063,226	3,462,506	
Major cash outflow at maturity	51,972,722	20,382,139	12,558,840	10,730,094	6,377,389	1,924,260	
Gap	(964,465)	(1,772,183)	1,409,452	(1,825,817)	(314,163)	1,538,246	

Note: The above tables refer to the Bank's overall position denominated in USD.

c. Maturity analysis of the Bank's overseas branches' assets and liabilities for U.S. Dollars

December 31, 2013

Unit: In Thousands of U.S. Dollars

	Total	Amount remaining to maturity date				Total	0~30 days
		0~30 days	Total	0~30 days	Total		
Major cash inflow at maturity	\$ 20,292,965	8,883,059	4,085,107	2,923,442	2,231,879	2,169,478	
Major cash outflow at maturity	20,413,900	8,860,942	4,770,222	2,153,606	1,991,833	2,637,297	
Gap	(120,935)	22,117	(685,115)	769,836	240,046	(467,819)	

December 31, 2012

Unit: In Thousands of U.S. Dollars

	Total	Amount remaining to maturity date				Total	0~30 days
		0~30 days	Total	0~30 days	Total		
Major cash inflow at maturity	\$ 23,973,788	10,323,009	6,549,074	3,168,015	2,489,825	1,443,865	
Major cash outflow at maturity	24,191,876	11,689,227	5,559,703	3,597,093	2,439,788	906,065	
Gap	(218,088)	(1,366,218)	989,371	(429,078)	50,037	537,800	

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(f) Capital management

1. Capital management goal and procedure

The goal of the Bank's capital management is to meet the regulatory requirement on capital adequacy and the organization's target of maximizing returns for shareholders by following capital management procedures and raising return on capital.

The Bank's capital planning accounts for short-term and long-term capital requirements. The Bank makes yearly capital planning based on operation planning, internal planned reference index, current and forecast future capital requirement, and promised returns for shareholders. The Bank also makes back-up plan to meet capital requirement not included in the planning. The Bank also regularly conducts stress tests and scenario simulation analysis to calculate different capital ratios, fully taking into account of external conditions and other factors, including potential risks, changes in financial markets, and other events impacting risk taking capabilities, to make sure that the Bank can maintain adequate capital in case of detrimental events and huge market changes.

Planning for yearly earnings distribution follows the principles and ratios mandated by articles of incorporation and dividend policy, and is put into effect after being approved by the board of directors and shareholders' meeting. Capital adequacy, potential investment needs, and dividend amount of previous years are taken into account. The needs to maintain proper financial ratios and satisfy capital requirement of the parent company are also preconditions of the distribution.

2. Definition and regulation

The regulator of the Bank is FSC of the Republic of China, and the Bank's follows the "Regulations Governing the Capital Adequacy and Capital Category of Bank's" issued by FSC.

Starting from January 1, 2013, according to the regulations aforementioned, ratio of regulatory capital to risk-weighted assets shall mean common equity tier 1 ratio, tier 1 capital ratio, and total capital adequacy ratio. Besides calculating these three ratios of the Bank, it should also calculate the consolidated capital common equity tier 1 ratio, Tier 1 capital ratio, and total capital adequacy ratio by consolidating its investments in subsidiaries in consolidated financial statements prepared following IAS 27, and the three consolidated ratios should follow article 5 of the "Regulations Governing the Capital Adequacy and Capital Category of Bank's".

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

3. Regulatory capital

The Bank's regulatory capital is divided into net Tier 1 Capital and net Tier 2 Capital following the "Regulations Governing the Capital Adequacy and Capital Category of Bank's":

- A. Net Tier 1 Capital: The aggregate amount of net Common Equity Tier 1 and net additional Tier 1 Capital.
- Net common equity tier 1 capital: Primarily consists of the aggregate amount of Common stock and additional paid-in capital in excess of par - common stock, Capital collected in advance, Capital reserves, Statutory surplus reserves, Special reserves, accumulated profit or loss, Non-controlling interests, and Other items of interest, minus intangible assets (including goodwill), deferred tax assets due to losses from the previous year, the insufficiency of operation reserves and loan loss provisions, the revaluation surplus of real estate, unamortized losses on sales of non-performing loans, and statutory adjustment items calculated in accordance with "the Methods for calculating Bank's regulatory capital and Risk Weighted Assets".
  - Net additional Tier 1 capital: Consists of the aggregate amount of non-cumulative perpetual preferred stock and its capital stock premium, non-cumulative perpetual subordinated debts, additional tier 1 capital issued by banks' subsidiaries and not directly or indirectly held by banks, minus statutory adjustment items calculated in accordance with "the Methods for calculating Bank's regulatory capital and Risk Weighted Assets".
- B. Net tier 2 capital: Consist of the aggregate amount of cumulative perpetual preferred stock and its capital stock premium, cumulative perpetual subordinated debts, convertible subordinated debts, long-term subordinated debts, non-perpetual preferred stock and its capital stock premium, the increase in retained earnings when fair value or re-estimated value is adopted as deemed cost for the first-time adoption of IFRSs on premises, 45% of unrealized gains on available-for-sale financial assets, operational reserves and loan-loss provisions, and tier 2 capital issued by banks' subsidiaries and not directly or indirectly held by banks, minus statutory adjustment items calculated in accordance with "the Methods for calculating Bank's regulatory capital and Risk Weighted Assets".

The Bank issues different capital instrument via versatile venues to maintain a sound capital structure. The Bank does not provide holders of such capital instruments with relevant financing. Subsidiaries of the financial holding company, to which the Bank belongs, do not own such capital instruments.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The regulator examines a Bank's capital category in accordance with the common equity tier 1 ratio, tier 1 capital ratio, and total capital adequacy ratio filing by a bank. When a Bank's capital is graded as inadequate capital, significantly inadequate capital or seriously inadequate capital by the regulator, the regulator shall take prompt corrective actions pursuant to Sections 1 to 3, Paragraph 1, Article 44-2 of the Banking Act.

The aforementioned regulations governing categories issued by the regulator follows the new BASEL capital agreement issued by Bank for International Settlements. A brief description of three pillars of the agreement and the Bank's compliance with them is as below:

**A. Pillar 1**

Pillar 1 covers the capital requirement for credit risk, market risk, and operational risk.

- a. Credit risk measures the risk that a bank suffers losses when counterparties breaches agreements, and can be divided into on/off-balance-sheet items. Measurement methods include standardized approach and internal ratings-based (IRB) approaches. The Bank adopts standardized approach in the calculation of required capital.
- b. Market risk is the losses incurred by a Bank's on/off-balance-sheet positions due to changes in market price, such as market interest rates, foreign exchange rate, securities and commodities prices. Market risk measurement methods include standardized approach and internal model approach. The Bank adopts standardized approach in the calculation of required capital.
- c. Operational risk is the risk that a bank suffers losses from external events or improprieties or failures of its internal operation, personnel, or systems, including legal risk, but excluding strategic and reputational risk. Methods to measure capital required for operational risk include basic indicator approach (BIA), standardized approach (SA); alternative standardized approaches (ASA), and advanced measurement approaches (AMA). The Bank adopts standardized approach in dividing the gross profits into eight business lines, and calculating required capital for each business line's operational risk based on their respective risk quotient.

**B. Pillar 2**

Pillar 2 ensures that each bank has a sound internal assessment process and is able to forecast its capital adequacy based on the thorough assessment of bank risks, and that, with proper regulatory monitoring, regulatory capital matches the overall risk characters.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For compliance with regulatory monitoring of capital adequacy, the Bank conducts regular filing of capital adequacy self-assessment and various risks management every year in accordance with regulatory mandate.

**C. Pillar 3**

Pillar 3 involves market discipline and requires banks to follow new BASEL capital agreement framework by disclosing more detailed information on risk, capital, and risk management, to improve banking information transparency. To be in compliance with the pillar 3 market discipline principle, the Bank has on its website a page “capital adequacy and risk management” dedicated to disclosure of qualitative and quantitative information.

**4. Capital adequacy ratios of the Bank and its subsidiaries**

Analysis items			Period	December 31,2013
Eligible capital	Common equity capital		129,872,697	
	Other Tier 1 capital		9,315,799	
	Tier 2 capital		31,163,779	
	Eligible Capital		170,352,275	
Risk-weighted assets	Credit risk	Standardized approach	1,256,869,564	
		Internal ratings-based approach	-	
		Securitization	863,949	
	Operational risk	Basic indicator approach	-	
		Standardized approach / Alternative standard approach	86,451,508	
		Advanced measurement approach	-	
	Market risk	Standardized approach	97,053,020	
		Internal model approach	-	
	Total risk-weighted assets		1,441,238,041	
Capital adequacy ratio			11.82%	
Common Equity / Risk-weighted assets ratio			9.01%	
Tier 1 capital / Risk-weighted assets ratio			9.66%	
Leverage ratio			4.16%	

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Analysis item			Period	December 31,2012	January 1, 2012
Eligible capital	Tier 1 capital			136,264,230	126,598,371
	Tier 2 captial			27,688,337	28,052,514
	Tier 3 captial			-	-
	Eligible Capital			163,952,567	154,650,885
Risk-weighted assets	Credit risk	Standardized approach		1,002,446,977	963,620,449
		Internal ratings-based approach		-	-
		Securitization		521,944	607,581
	Operational risk	Basic indicator approach		-	-
		Standardized approach / Alternative standard approach		82,325,175	86,268,083
		Advance measurement approach		-	-
	Market risk	Standardized approach		62,413,748	58,394,290
		Internal model approach		-	-
	Total				1,147,707,844
Capital adequacy ratio				14.29%	13.95%
Tier 1 capital / Risk-weighted assets ratio				11.88%	11.42%
Tier 2 capital / Risk-weighted assets ratio				2.41%	2.53%
Tier 3 capital / Risk-weighted assets ratio				- %	- %
Common equity / Total assets ratio				3.90%	3.99%
Leverage ratio				7.20%	6.96%

(AS) Information on reclassification of financial assets

- (a) Commencing from July 1, 2008, the Bank and its subsidiaries adopted the new version of IAS 39 “Financial Instruments: Recognition and Measurement” and proceeded to reclassify its financial assets. The fair value at the reclassification date was determined as follows:

	Available-for-sale financial assets — net
Items originally classified as held-for-trading financial assets	<u><u>\$ 12,567,964</u></u>

Due to the dramatic changes in the domestic and global financial and economic trends in recent periods, where the facts and circumstances indicated that the situations were those rare ones stated in IAS 39 “Financial Instruments: Recognition and Measurement”, The Bank reclassified its stock investments to available-for-sale financial assets—net from those classified as held for trading at initial recognition.

- (b) Book value and fair value of financial assets which were reclassified

	December 31, 2013	
	Book value	Fair value
Available-for-sale financial assets — net	<u><u>\$ 3,056,637</u></u>	<u><u>3,056,637</u></u>
	December 31, 2012	
	Book value	Fair value
Available-for-sale financial assets — net	<u><u>\$ 10,626,205</u></u>	<u><u>10,626,205</u></u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	January 1, 2012	
	Book value	Fair value
Available-for-sale financial assets — net	\$ 11,190,533	11,190,533

(c) Recognizing reclassification of financial assets measured at fair value through profit or loss or stockholders' equity

	Items classified as financial assets held for trading	
	Gains (losses) on financial assets measured at fair value through profit or loss if not reclassified	Amount recognized in profit or loss under reclassification
For the year ended December 31, 2013	\$ 304,446	810,681
For the year ended December 31, 2012	\$ 1,128,447	77,680
For the year ended December 31, 2011	\$ (1,246,470)	5,701
For the years ended December 31, 2008~2010	\$ (165,731)	-

**7. RELATED-PARTY TRANSACTIONS**

(A) Names of related parties and relationship with the Bank

Name of related party	Relationship with the Bank
CTBC Financial Holding Co., Ltd.	Parent company of the Bank.
Grand Bills Finance Corporation	Investee company under equity method
GCB Finance (HK) Limited	"
Taiwan Institute of Economic Research	The Bank contributed over 1/3 of its total funds.
Chinatrust Charity Foundation	"
Chinatrust Culture Foundation	"
Importer and Exporter Association of Taipei	The director of the Bank is its representative.
Showa Denko Hd Trace Corp.	The Chairman of the Bank is its director.
Straits Exchange Foundation	"
CTBC Securities Co., Ltd.	Controlled by the same company as the Bank.
CTBC(Mauritius) Holding Co., Ltd.	"
CTBC Asia Limited	"
CTBC Insurance Brokers Co., Ltd.	"
CTBC Venture Capital Co., Ltd.	"
CTBC Asset Management Co., Ltd.	"
CTBC Security Co., Ltd.	"
Taiwan Lottery Corporation	"
CTBC Life Insurance Co., Ltd.	"
CTBC Investments Co., Ltd. (formerly known as Truswell Securities Investment Trust Co., Ltd.)	"

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>Name of related party</b>	<b>Relationship with the Bank</b>
CTCB Venture Capital Investment Management (Shanghai) Co., Ltd.	Controlled by the same company as the Bank.
CTBC International Co., Limited.	"
CTBC Leasing Co., Ltd.	"
CTBC Capital International Co., Limited.	"
Chung Shin-1 Asset Management Co., Ltd.	"
	(Liquidating)
Tuo Yu Asset Management Servicing Co., Ltd.	"
	(Liquidated in September 2012)
CT Opportunity Investment Company	"
	(Liquidated in November 2012)
Chung Cheng Investment Co., Ltd.	The institutional directors of the Bank's parent company.
Yi Kao Investment Co., Ltd.	"
United Construction Co.Ltd.	The company's Chairman is the second-degree relatives of the Chairman of the Bank's parent company.
Wei Fu Investment Co., Ltd.	The Chairman of the parent company of the Bank is its director.
Weihung Investment Co., Ltd.	"
Quanwei Investment Limited	Related party in substance.
Hewei Investment Co., Ltd.	"
Chailease Finance Co., Ltd.	"
Sunghung Investment Co., Ltd.	"
Sungyong Investment Co., Ltd.	"
Sungbo Co., Ltd.	"
Jungguan Investment Co., Ltd.	"
Fenglu Development & Investment Co., Ltd.	"
Kuan Ho Development Co., Ltd.	"
Jiehe Construction Co., Ltd.	"
Chinatrust Real Estate Co., Ltd.	"
Ta-Yo-Wei Construction Co., Ltd.	"
Zhonghang Co., Ltd.	"
Chailease Resources Technology Co. Ltd.	"
Chung-Chie Property Management Co., Ltd.	"
CTC Group Inc.	"
Chailease International Leasing Co., Ltd (Vietnam)	"
APEX Credit Solutions Inc.	"
Other related parties	The directors of CTBC Financial Holding Co., Ltd. and subsidiaries (including independent directors), supervisors, managers and their families, spouses, etc.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(B) Significant transactions between related parties and the Bank

(a) Lease

For the year ended December 31, 2013 and 2012, the rental revenue that the Bank received from related parties for the rental of buildings and parking spaces amounted to \$46,724 and \$44,539, respectively, constituting 33.77% and 34.43%, respectively, of total rental income. For the year ended December 31, 2013 and 2012, the guarantee deposit for the use of space and machinery received from related parties amounted to \$12,866 and \$11,432, respectively.

For the year ended December 31, 2013 and 2012, deposits for renting safe boxes to related parties were \$6 for both years, income from property rental were \$8 and \$10, while rents received in advance from related parties amounted \$1,110 and \$1,274, respectively.

(b) Commissions and service fees

For the year ended December 31, 2013 and 2012, the Bank traded listed and OTC securities through CTBC Securities Co., Ltd. and paid brokerage fees to CTBC Securities Co., Ltd. amounted to \$1,716 and \$1,676, respectively.

(c) Site usage fee

For the year ended December 31, 2013 and 2012, the Bank paid CTBC Securities Co., Ltd. site usage fees and other related expenses for operations amounting to \$22,469 and \$30,085, respectively (within which \$2,330 and \$3,934 were under payables).

(d) Donations

<b>Related party</b>	<b>For the year ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
CTBC Culture Foundation	\$ 45,000	82,000
Chinatrust Charity Foundation	44,366	44,000
Straits Exchange Foundation	-	20,000
<b>Total</b>	<b>\$ 89,366</b>	<b>146,000</b>

(e) Guarantee :

<b>For the year ended December 31, 2013</b>					
<b>Related party</b>	<b>Maximum balance</b>	<b>Ending balance</b>	<b>Balance of guarantee reserve</b>	<b>Range of interest rates</b>	<b>Collateral</b>
Showa Denko Hd Trace Corp.	\$ 1,500	1,500	-	1%	none

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(f) Loans

For the year ended December 31, 2013							
Categories	Number/name of related parties	Maximum balance	Ending balance	Settlement status		Collateral	Loan conditions
				Normal loans	Overdue loans		
Consumer loan—employee	48	\$ 21,362	9,281	9,281	-	None	Note
Home loan mortgage	322	1,894,254	1,574,843	1,574,843	-	Real estate/others	"
Others	CTC Group Inc	496,980	481,496	481,496	-	Real estate	"
"	Zhonghang Co., Ltd.	414,400	366,800	366,800	-	Vehicle/cargo aircraft	"
"	Jungguan Investment Co.,Ltd.	355,000	355,000	355,000	-	Real estate	"
"	Kuan Ho Construction & Development Co., Ltd	245,000	245,000	245,000	-	Real estate	"
"	Chailease International Leasing Co, Ltd(Vietnam)	260,196	194,046	194,046	-	Machinery	"
"	Sunhung Investment Co., Ltd.	43,300	43,300	43,300	-	Real estate	"
"	Others	1,184,149	72,325	72,325	-	Real estate	"
For the year ended December 31, 2012							
Categories	Number/name of related parties	Maximum balance	Ending balance	Settlement status		Collateral	Loan conditions
				Normal loans	Overdue loans		
Consumer loan—employee	52	\$ 23,596	13,097	13,097	-	None	Note
Home loan mortgage	293	1,561,106	1,174,377	1,174,377	-	Real estate/others	"
Others	Quanwei Investment Limited	845,000	845,000	845,000	-	Real estate	"
"	CTC Group Inc	499,105	480,744	480,744	-	Real estate	"
"	Zhonghang Co., Ltd.	462,000	414,400	414,400	-	Vehicle/cargo aircraft	"
"	Jungguan Investment Co., Ltd.	195,000	195,000	195,000	-	Real estate	"
"	Jiehe Construction Co., Ltd.	404,310	154,755	154,755	-	Real estate/securities under central custody/stocks	"
"	Kuan Ho Construction & Development Co., Ltd	315,000	130,000	130,000	-	Real estate	"
"	Chailease International Leasing Co, Ltd(Vietnam)	131,953	126,035	126,035	-	Machinery	"
"	Ta-Yo-Wei Construction Co., Ltd.	333,298	73,291	73,291	-	Real estate / securities under central custody	"
"	Wei Fu Investment Co., Ltd.	70,000	70,000	70,000	-	Real estate	"
"	Sunhung Investment Co., Ltd.	263,300	43,300	43,300	-	Real estate	"
"	Others	252,946	48,004	48,004	-	Real estate/vehicle	"

Note: The terms of loans between related and non-related parties are identical.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(g) Deposits

<b>For the year ended December 31, 2013</b>				
<b>Related party</b>	<b>Maximum balance</b>	<b>Ending balance</b>	<b>Range of interest rates</b>	<b>Interest expenses</b>
Showa Denko Hd Trace Corp.	\$ 3,949,029	3,672,546	0~1.35%	9,957
CTBC Life Insurance Co.,Ltd.	6,295,851	2,830,375	0~0.7%	3,355
CTBC Securities Co., Ltd.	3,410,523	1,605,055	0~1.35%	13,724
CTBC Charity Foundation	1,081,061	825,586	0~1.35%	6,401
Yi Kao Investment Co., Ltd.	887,471	567,740	0.04%	69
Chung Cheng Investment Co., Ltd	505,501	505,068	0~0.17%	511
Hewei Investment Co., Ltd.	508,945	488,440	0~0.17%	385
Kuan Ho Development Co., Ltd.	592,292	466,638	0~0.17%	255
CTBC Insurance Brokers Co., Ltd	3,237,683	462,386	0~0.17%	1,334
Taiwan Institute of Economic Research	430,763	406,763	0~1.40%	1,533
Chinatrust Real Estate Co., Ltd.	397,907	375,538	0~1.35%	928
CTBC Investments Co., Ltd.	343,207	341,188	0~0.81%	1,414
Taiwan Lottery Co., Ltd.	728,452	340,968	0~0.55%	2,322
Jungguan Investment Co., Ltd.	1,804,152	321,421	0~0.17%	619
Weihung Investment Co., Ltd.	333,522	310,698	0.04%	55
Sungyong Investment Co., Ltd.	460,008	306,032	0~0.17%	311
Sunghung Investment Co., Ltd.	261,019	257,529	0~0.17%	206
Quanwei Investment Limited.	384,843	150,592	0.04~0.17%	162
Jiehe Construction Co., Ltd	143,338	137,304	0~0.17%	44
United Construction Co.Ltd.	1,326,573	117,516	0~0.17%	105
Fenglu Development & Investment Co., Ltd.	264,870	106,091	0~0.17%	200
Others	28,980,608	4,330,862		30,258
<b>Total</b>	<b>\$ 56,327,618</b>	<b>18,926,336</b>		<b>74,148</b>

<b>For the year ended December 31,2012</b>				
<b>Related party</b>	<b>Maximum balance</b>	<b>Ending balance</b>	<b>Range of interest rates</b>	<b>Interest expenses</b>
CTBC Securities Co., Ltd.	\$ 2,195,931	1,826,440	0~1.35%	14,365
CTBC Asset Management Co., Ltd.	3,918,845	1,073,834	0.~0.17%	279
CTBC Life Insurance Co.,Ltd	5,150,144	986,772	0~4.65%	1,220
CTBC Charity Foundation	709,081	658,820	0~1.35%	3,437
Taiwan Lottery Co., Ltd	533,445	478,865	0~0.55%	2,081
CTBC Insurance Brokers Co., Ltd..	3,852,140	373,473	0~0.17%	1,535
Taiwan Institute of Economic Research	397,663	335,588	0~1.40%	1,244
Chung Cheng Investment Co., Ltd	905,395	270,324	0~0.17%	111
CTBC Investments Co., Ltd.	260,482	238,103	0~0.81%	50
Chinatrust Real Estate Co., Ltd.	165,222	154,669	0~1.35%	1,699
CTBC Venture Capital Co., Ltd.	762,254	108,774	0.01~0.58%	465
Others	50,001,986	3,334,517		34,596
<b>Total</b>	<b>\$ 68,852,588</b>	<b>9,840,179</b>		<b>61,082</b>

Deposit rates for related and non-related parties are identical.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(h) Financial derivatives

For the year ended December 31, 2012						
Related party	Derivative financial instruments	Contract period	Notional principal		Unrealized profit (loss)	Balance sheet
						Account      Related party
CTBC Life Insurance Co., Ltd.	Currency swaps	2012.11.06~2013.05.08	USD	10,000	(1,481)	(Note 2)      (1,481)
"	"	2012.11.27~2013.08.29	USD	5,000	101	(Note 1)      101
"	"	2012.12.14~2013.12.18	USD	10,000	248	"      248

Note 1: Financial assets measured at fair value through profit or loss.

Note 2: Financial liabilities measured at fair value through profit or loss

(i) Trading of bills and bonds

Related party	For the year ended December 31, 2013	
	Bills and bonds purchased	Bills and bonds sold
CTBC Life Insurance Co., Ltd.	\$ -	1,100,000

Related party	For the year ended December 31, 2012	
	Bills and bonds purchased	Bills and bonds sold
CTBC Securities Co., Ltd.	\$ 301,125	-
Grand Bills Finance Corporation	50,024	50,032
CTBC Life Insurance Co., Ltd.	-	493,019

(j) Securities sold under repurchase agreements

Related party	For the year ended December 31, 2013		
	Ending Balance	Interest Payable	Interest
Straits Exchange Foundation	\$ -	-	232

Related party	For the year ended December 31, 2012		
	Ending Balance	Interest Payable	Interest
Straits Exchange Foundation	\$ 52,113	4	275
CTBC Life Insurance Co., Ltd.	-	-	63
	<u>\$ 52,113</u>	<u>4</u>	<u>338</u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(k) Others

(1) Commission and other income

Related party	Summary	For the year ended December 31	
		2013	2012
CTBC Financial Holding Co., Ltd.	Information and commission income	\$ 32,734	28,676
CTBC Securities Co., Ltd.	Information and commission income	2,534	2,461
CTBC Insurance Brokers Co., Ltd.	Allocation of profits and expenses	5,086,328	5,243,868
Taiwan Lottery Co., Ltd	Machine relocation and other commission income	2,966	3,722
CTBC Asia Limited	Trust service charges	2,842	3,564
Chailease Finance Co., Ltd.	Commission income	83	1,397
CTBC Life Insurance Co., Ltd.	Commission income	142,190	108,617
Grand Bills Finance Corporation	Commission for trust	482	735
Individuals	Commission for funds	5,929	-
Total		<u>\$ 5,276,088</u>	<u>5,393,040</u>

The balance of accounts receivable for foregoing transactions were as follows:

Related party	Summary	For the year ended December 31	
		2013	2012
CTBC Financial Holding Co., Ltd.	Information and commission income	\$ 4,225	1,968
CTBC Securities Co., Ltd.	Information and commission income	5	15
CTBC Insurance Brokers Co., Ltd.	Allocation of profits and expenses	509,036	476,512
Taiwan Lottery Co., Ltd	Machine relocation and other commission income	276	332
CTBC Asia Limited	Commission for trust	169	-
CTBC Life Insurance Co., Ltd.	Commission income	263	96
Grand Bills Finance Corporation	Commission for trust	36	49
Total		<u>\$ 514,010</u>	<u>478,972</u>

(2) Handling fees and other general administration expenses

Related party	Summary	For the year ended December 31	
		2013	2012
CTBC Financial Holding Co., Ltd.	Credit rating and remittance	\$ 1,363	223
CTBC Securities Co., Ltd.	Other service fees	3,802	4,115
CTBC Security Co., Ltd.	Security fees	92,152	84,906
Taiwan Lottery Co., Ltd	Consulting and printer maintenance fees	965,479	898,896
Chailease Finance Co., Ltd.	Business related service fees	31,502	59,188
Chinatrust Real Estate Co., Ltd.	Project service fees	5,759	5,902
Sunghung Investment Co., Ltd.	Site rent expense	-	2,362
Taiwan Institute of Economic Research	Expense for financial research and business consulting commissioned research	11,800	11,000
Sungbo Co., Ltd	Gift expenses	1,580	1,629
Chailease Resources Technology Co. Ltd.	Gift expenses	1,408	701
Chung-Chie Property Management Co., Ltd.	Site cleaning and other fees	9,836	8,287
APEX Credit Solutions Co., Ltd.	Collection assistance fees	20,776	21,921
Importer and Exporter Association of Taipei	Management fees and other fees	4,136	4,128
CTBC Life Insurance Co., Ltd.	Group insurance fees	88,544	58,471
Total		<u>\$ 1,238,137</u>	<u>1,161,729</u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Foregoing transactions, accounts payable balances were as follows:

<b>Related party</b>	<b>Summary</b>	<b>For the year ended December 31</b>	
		<b>2013</b>	<b>2012</b>
CTBC Security Co., Ltd.	Security fees	\$ 7,199	7,796
Taiwan Lottery Co., Ltd	Consulting and printer maintenance fees	309,118	248,604
Chinatrust Real Estate Co., Ltd.	Project service fees	-	3,065
Taiwan Institute of Economic Research	Expense for financial research and business consulting commissioned research	2,950	2,750
Chung-Chie Property Management Co., Ltd.	Site cleaning and other fees	1	1
APEX Credit Solutions Co., Ltd.	Collection assistance fees	3,627	3,244
CTBC Life Insurance Co., Ltd.	Group insurance fees	5,552	4,870
Total		<b>\$ 328,447</b>	<b>270,330</b>

(3) Others

<b>Related party</b>	<b>Summary</b>	<b>For the year ended December 31</b>	
		<b>2013</b>	<b>2012</b>
CTBC Financial Holding Co., Ltd.	Short-term advances	\$ 365	6
Chailease Finance Co., Ltd.	Released undue loans (Note)	134,188	451,240
CTBC Life Insurance Co., Ltd.	Received and paid on CTBC Life Insurance Co.Ltd's behalf for mortgage insurance	3,205	4,070
Chinatrust Asia Limited	Advances for office rentals	4,394	3,564
GCB Finance (HK) Limited	Advances for office rentals	732	32
Total		<b>\$ 142,884</b>	<b>458,912</b>

Note: The Bank signed a strategic alliance agreement with Chailease Finance Co., Ltd. agreeing loans will be released directly to Chailease's clients, and Chailease pledged to buyback and settle all debts once any delay arises.

(C) Key management personnel compensation in total

	<b>For the year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Salary and other short-term employee benefits	\$ 786,213	820,372
Post-employment benefits	65,322	84,315
Share-based payment	77,725	9,591
Total	<b>\$ 929,260</b>	<b>914,278</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**8. PLEDGED ASSETS**

Pledged assets of the Bank and its subsidiaries were as follows:

Unit: In Thousands of New Taiwan dollars					
Assets	Type of securities	December 31, 2013 Par value of refundable deposits	December 31, 2012 Par value of refundable deposits	January 1, 2012 Par value of refundable deposits	Purpose of collateral
<b>Available-for-sale financial assets-net</b>	Bond	\$ 3,787,352	2,397,207	3,744,757	Credit line from Federal Reserve Bank and other deposits
	NCD of Central Bank	-	7,800,000	1,500,000	Daytime overdrafts of Central Bank
	"	-	500,000	-	Deposits for issuing financial debentures
	Government bond	199,325	-	-	Overdrafts secured
<b>Held-to-maturity financial assets-net</b>	NCD of Central Bank	10,000,000	3,700,000	12,500,000	Daytime overdrafts of Central Bank
	"	9,500,000	9,500,000	10,000,000	Deposits for calling loans in foreign currency
	"	100,000	100,000	50,000	Deposits for bills dealer
	"	3,000,000	3,000,000	3,000,000	Call loan liquidation account in U.S. Dollars
	NCD	391,000	391,000	391,000	Guarantee fulfillment of superfluous
	Government bond	4,271	-	-	Overdrafts secured
	"	490,000	490,000	540,000	Trust funds reserve
	"	150,000	150,000	150,000	Bond settlement reserves
	"	140,200	203,600	215,400	Deposits for litigation and others
<b>Other financial assets</b>	Time deposit	70,000	70,000	70,000	Operational guarantee deposit for securities dealer
	"	40,000	40,000	40,000	Underwriting guarantee deposit for securities dealer
	"	10,000	10,000	10,000	Guarantee deposit for futures dealer
	"	318,660	317,016	77,665	CPC Corporation, Taiwan guarantee fulfillment
	"	-	-	8,000	Taiwan Railways guarantee fulfillment for receipt service
	"	-	-	10,000	Chunghwa Telecom Co., Ltd. guarantee fulfillment
<b>Due from Central Bank and call loans to bank</b>	Time deposit	500,000	-	-	Deposits for calling loans in foreign currency
<b>Receivables</b>	Matured securities classified under other receivables	13,500	106,600	125,800	Deposits for litigation and others

As of December 31, 2013 and December 31 and January 1 in 2012, the deposits for public welfare lottery issuance of the Bank's irrevocable standby letter of credit were \$1,800,000, \$1,800,000 and \$750,000, respectively.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS**

(A) Major commitments and contingencies

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Contingent liabilities from guarantee and letter of credit business	\$ 81,450,857	62,219,702	50,675,048
Promissory note to Central Bank for Bank's clearance	2,525,690	2,894,032	3,175,600
Client notes in custody	99,859,943	93,133,831	99,900,436
Marketable securities in custody	348,860,921	234,548,586	210,153,948
Consigned travelers' checks in custody	471,388	204,166	602,786
Designated purpose trust accounts	806,531,112	873,580,483	874,848,573
Other items in custody	399,296	168,225	89
Total	<u>\$ 1,340,099,207</u>	<u>1,266,749,025</u>	<u>1,239,356,480</u>

On September 1, 2012, the Bank signed a formal renewal of the services contract for information resources supply the Bank with International Business Machines, authorizing a five-year contract term commencing from September 1, 2012, and ending on August 31, 2017, for the amount of \$1,805,000, which includes a fixed monthly fee of \$7,844 comprising a host computer lease fee, an authorization fee, and an annual software maintenance fee.

On September 4, 2012, the Bank signed with Continental Development Corporation a contract of sale of buildings and land. Five years from now, the Bank will obtain the rights of land, currently owned by Continental Development Corporation, along with the 1st to 8th floors and parking spaces of the new building located there. The zoning code of the land is No. 99 & 100, Huikuo Section, Xitun District, Taichung City. The \$2,181,000 contract price was negotiated based on the appraisal report prepared by DTZ Real Estate Appraisal Firm and Savills Real Estate Appraisal Firm. The contract price will be paid in installments proportionate with construction progress during the contract period, accounted for under premises and equipment — net, prepayment for land and buildings. Please refer to Note 6(O) for related information.

The Bank was designated by the Ministry of Finance (the "MOF") as the issuing institution of the public welfare lottery for a period of seven years commencing from January 1, 2007, and ending on December 31, 2013. The Bank was authorized to arrange and issue traditional lottery, scratch-and-win lottery, and computerized lottery tickets. The Bank receives a commission for issuing lottery tickets, representing 4.35% of the total lottery sales amount. The commission will be settled monthly; meanwhile, the Bank's profit will be what remains after a fixed payment of \$2,086,800 to the MOF per year. However, if the amount of annual total lottery sales of year of 2013 is less than 80% of promised sales, which is \$97.6 billion, then the Bank needs to pay 26.75% of the shortage between the promised and actual sales amount to the government.

The Bank was designated by the Ministry of Finance (the "MOF") as the issuing institution of the public welfare lottery for a period of ten years commencing from January 1, 2014, and ending on December 31, 2023. The Bank was authorized to arrange and issue traditional lottery, scratch-and-win lottery, and computerized lottery tickets. The Bank receives a commission for issuing lottery tickets, representing 4.35% of the total lottery sales amount. The commission will be settled monthly; meanwhile, the Bank's profit will be what remains

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

after a fixed payment of \$2,700,000 to the MOF per year. However, if the amount of annual total lottery sales of year of 2014 is less than 80% of promised sales, which is \$88.8 billion, then the Bank needs to pay 26.75% of the shortage between the promised and actual sales amount to the government. Furthermore, in order to ensure that the lottery prize pay-out rate is not greater than 60% of the lottery issuing amount, the Bank created a transitional monitoring account, provision for the lottery prize. By creating the account, the Bank also helps the Government to settle and distribute the public welfare earnings. The amount of provision for the lottery prize may be negative (debit) or positive (credit), depending on the possibility of winning the lottery. In accordance with MOF Tai-Cai-Ku No. 09800050290, the Bank has the financial responsibility for the negative provision for the lottery prize. When the period designated by the MOF ends and the amount of provision for the lottery prize is negative, the Bank has to absorb it. However, the Bank has already adopted appropriate risk control strategies in order to control the aforesaid financial risk.

On May 18, 2006, the Bank signed a contract with LotRich Information Co. for lottery software, hardware and maintenances services amounting to \$1,159,185 (within which \$638,880 was for software service). The maintenance service sustains for six years, starting from August 2008 to July 2014. On May 31, 2013, the Bank signed a renewed contract for lottery software, hardware purchase and establishment and maintenances services amounting to \$2,322,756 (within which \$1,633,581 was for software service). The maintenance service sustains for ten years, starting from January 2014 to December 2023.

The Bank entrusted Taiwan Lottery Co., Ltd. to operate the public welfare lottery's ticket issuing, sales, promotion, drawing, payment of prize, and management, with a contract period from January 1, 2007, and ending on June 30, 2014. The Bank will disburse 1.50% of the total lottery sales amount as commission to Taiwan Lottery Co., Ltd. monthly. Additionally, if the annual total lottery sales amount is over \$90 billion, the commission for the excess part (over \$90 billion) will be equal to 1.80% of the total excess lottery sales amount. The Bank signed an amended contract with Taiwan Lottery Co., Ltd. on July 9, 2008, and rescinded the guarantee deposit amounting to \$500,000. In addition, the Bank will disburse 1.20% of the total lottery sales amount as commission to Taiwan Lottery Co., Ltd. monthly from January 1, 2008. Additionally, if the annual total lottery sales amount is over \$90 billion, the commission for the excess part will be equal to 1.50% of the total excess lottery sales amount. On September 23, 2009, the Bank signed a second amended contract with Taiwan Lottery Co., Ltd. Commencing from January 1, 2009, the Bank will distribute \$700 million as commission to Taiwan Lottery Co., Ltd. annually. Additionally, if the annual total lottery sales amount is over \$64 billion, the commission for the excess part (over \$64 billion) will be equal to 0.45% of the total excess lottery sales amount.

The Bank entrusted Taiwan Lottery Co., Ltd. to operate the public welfare lottery's ticket issuing, sales, promotion, drawing, payment of prize, and management, with a contract period from November 11, 2013, and ending on June 30, 2024. The Bank will disburse 4.35% of the total lottery sales amount as commission to Taiwan Lottery Co., Ltd. The Bank agreed that Taiwan Lottery Co., Ltd. can receive a reward, amounting to the commission revenue after the deduction of VAT, rebates and direct costs incurred for the lottery business, and the addition of marginal benefits, if the balance is positive. Otherwise, Taiwan Lottery Co., Ltd. should pay for the discrepancy, if the balance is negative.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

On June 25, 2010, the Bank awarded the contract for its new headquarters building project located in Nankang to RSEA Engineering Corporation and Evergreen Construction Corporation with a total construction cost of \$11.475 billion. From the contract date, the total construction cost will be paid at different stages: appointed subcontract stage and un-appointed subcontract stage. In December 2010, the Bank re-awarded the contract for its new headquarters building project located in Nankang to RSEA Engineering Corporation.

On March 14, 2011, the Bank received a complaint from Evergreen Construction Corporation regarding the performance of the contract for the Bank's new headquarters building project. Evergreen Construction Corporation lodged a complaint against the Bank and RSEA Engineering Corporation (RSEA Corporation) and sought compensation of \$316 million. The Bank handled the contract according to the related regulations and terms in the contract, and there was no breach of the contract. The Bank has appointed lawyers to take the necessary legal procedures to protect stockholder rights and goodwill. Furthermore, in response to the dispute, the Bank received a written commitment on November 15, 2010, that RSEA Corporation will bear all losses and expenses of the Bank resulting from the lawsuit. On April 20, 2012, the Taipei District Court dismissed the appeal regarding the complaint and provisional execution from Evergreen Construction Corporation. Currently, the case is being proceeded by the Taiwan High Court for the second instance.

The Bank signed a large-scale Enterprise Enrollment procurement contract with SYSTEX Corporation (Taiwan Microsoft Dealer) with a six-year contract term ending on November 30, 2015. The total value of the contract with SYSTEX Corporation amounted to \$361,683, which will be paid in installments over a period of six years beginning from the effective date of the contract. The first three installments of \$55,754 and the last three installments of \$64,807 will be paid annually.

On April 17, 2009, in order to show its determination to dispose of Mega Financial Holding Company (Mega Financial) shares, the Bank authorized Bank of Taiwan (BOT) as the trustee to dispose of all Mega Financial shares during the contractual period. During the contractual period, BOT will represent the Bank to attend the Mega Financial annual shareholders' meeting and execute the voting rights, in compliance with the Ministry of Finance's direction.

For GCB Finance (HK) Limited to obtain financing facility, the Bank issued Letter of Comfort to financial institutions on January 22, 2013 and October 22, 2012, to announce that the Bank would actively support the operation of the company.

In order to fulfill the Bank's social responsibility, improve the image of the Bank and receive a long term benefit from advertisements, the Bank has planned to sponsor a professional baseball team by signing a sponsorship and cooperative advertisement contract with HuaYi Entertaining Co., Ltd on December 5, 2013, amounting to \$400 million. The duration of the name of the baseball team will last for 10 years, starting from the date the Bank appointed the team name.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (B) The below information is shown based on the disclosure requirements of Enforcement Rules of the Trust Enterprise Act, Article 17.

**Balance Sheet of Trust Accounts**  
**December 31**

<b>Trust Assets</b>	<b>2013</b>	<b>2012</b>	<b>Trust Liabilities</b>	<b>2013</b>	<b>2012</b>
Cash	\$ 40,159,904	48,134,524	Payables	351,237,438	361,806,879
Bonds	803,175	46,381,761	Other liabilities	20,706	224,605
Stocks	124,547,701	116,044,896	Trust capital	434,710,240	450,143,658
Mutual funds	269,770,073	272,608,358	Miscellaneous reserves	19,889,090	58,170,476
			and accumulated earnings		
Other investments	3,884,825	8,857,547			
Receivables	50,711	3,603,961			
Real estates—net	16,057,602	10,648,987			
Securities in custody	350,582,908	359,265,060			
Other assets	575	4,800,524			
Total trust assets	<u><u>\$ 805,857,474</u></u>	<u><u>870,345,618</u></u>	Total trust liabilities	<u><u>805,857,474</u></u>	<u><u>870,345,618</u></u>

**Properties Catalog of Trust Accounts**  
**December 31**

<b>Investments</b>	<b>2013</b>	<b>2012</b>
Cash	\$ 40,159,904	48,134,524
Bonds	803,175	46,381,761
Stocks	124,547,701	116,044,896
Mutual funds	269,770,073	272,608,358
Other investments	3,884,825	8,857,547
Securities in custody	350,582,908	359,265,060
Real estates—net		
Lands	15,944,310	10,563,572
Buildings	115,339	85,448
Accumulated depreciation—buildings	(2,047)	(33)
Subtotal	<u>16,057,602</u>	<u>10,648,987</u>
Other assets		
Prepaid other payments	575	524
Beneficial right of trust	-	4,800,000
Total	<u><u>\$ 805,806,763</u></u>	<u><u>866,741,657</u></u>

**Income Statement of Trust Accounts**  
**For the year ended December 31**

	<b>2013</b>	<b>2012</b>
Trust revenues	\$ 5,037,621	25,219,561
Trust expenses	(502,029)	(588,449)
Earnings before tax	4,535,592	24,631,112
Income tax	(30,352)	(40,784)
Net profits	<u><u>\$ 4,505,240</u></u>	<u><u>24,590,328</u></u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(C) Operating lease

Total amount of minimum future irrevocable operating lease payment of were as below:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Less than 1 year	\$ 733,026	827,486	732,568
1 year to 5 years	1,681,079	1,675,052	1,672,595
More than 5 years	474,472	224,117	191,849
Total	<u>\$ 2,888,577</u>	<u>2,726,655</u>	<u>2,597,012</u>

(D) Others

(a) Structured notes case

During September to December in 2005, Hong Kong Branch, with approval of the board of directors, purchased structured notes from Barclays Bank PLC at par value US\$390 million, which totaled US\$392,633 thousands. Thereafter, CTBC Financial Holding Co., Ltd. (CTBC Holding), the Bank's parent company, submitted its investment application on Mega FHC, where it was required to disclose its overall holding of Mega shares, to FSC on January 27, 2006. To comply with the above requirements, Hong Kong Branch then sold all the structured notes to Red Fire at market price amounting to US\$401,081 thousands and gained US\$8,448 thousands. In order to pay for the above transactions, Red Fire then redeemed the structured notes at Barclays, leading to gains of US\$30,474,717.12.

On October 7, 2008, Taipei District Court delivered the judgment of the first instance (please refer to the Law and Regulations retrieval system of the Judicial Yuan, Chong-Su-Zi No. 19 Criminal Judgment in 2007, for related information), deducing Red Fire's gains from structured notes redemption were resulting from Hong Kong Branch's damage. Regarding the case of Jeffery J.L. Koo Jr., the judgment of the first instance was delivered by Taipei District Court on October 18, 2010 (please refer to the Law and Regulations retrieval system of the Judicial Yuan, Chong Su Zi No. 40 Criminal Judgment in 2009 for related information), concluding Red Fire was a special purpose vehicle (SPV) of CTBC Holding. Although US\$20.9 million, out of the US\$30.47 million gains, was remitted to CTBC Holding's overseas sub-subsidiary, the opening balance of US\$9.57 million was embezzled by Steven C.Z. Cheng and Jeffery J.L. Koo Jr. with malicious intent, while the former chief financial officer, Perry Chang and others were not involved, and the transaction between Hong Kong Branch and Red Fire was not a breach of trust. As for the aforesaid US\$9.57 million gap, the director of CTBC Holding, in considerations of maintaining both domestic and overseas operations, had remitted NTD\$1,003,533 thousands to the Bank in accordance with FSC's requests (Jin-Kuan-Yin-(6) No. 09560003930 and Jin-Kuan-Yin-(6) No. 09560003932). The remittance was recognized as other income in September 2006 which not only fulfilled the gap, but also left a balance of approximately NTD\$0.7 billion.

On May 31, 2013, the judgment of the second instance was delivered by Taiwan High Court (please refer to the Law and Regulations retrieval system of the Judicial Yuan, Shang Chong-Su-Zi No. 54 in 2008 and Jin Shang Chong-Su-Zi No. 75 in 2010 Criminal Judgments for relevant information), and the litigation has been appealed to third instance.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Cited from the opinion letter from the attorney designated by the Bank and its parent company, CTBC Holding, "With regard to whether Red Fire is CTBC Holding's SPV, the denial seemed to be inadequate as the ultimate profit and loss attribution was not taken into consideration in Taiwan High Court's previous judgment. The structured note investigation report, approved by the 35th meeting of the 4th board of directors of CTBC Holding on June 18, 2013, claimed that based on profit and loss attribution, together with the time point that Red Fire remitted its gains to CTBC Holding entities was actually prior to the authority's investigation outcome on structured notes case and other factors, it is believed that Red Fire Company is a SPV of CTBC Holding, fulfilling its commercial substance without violating the law." "The cash flow diagram in the appendix of Jin Shang Chong-Su-Zi No. 75 in 2010 and Shang Chong-Su-Zi No. 54 criminal judgment in 2008 also clearly demonstrated US\$20.9 million of Red Fire's gains was remitted to GC Oaks Country Club Portfolio Ltd. on June 12, 2006, and further transferred to an account owned by CTBC Holding's sub-subsidiary, CT Opportunity Investment, on July 31 during the same year. In addition, another NTD\$1 billion advanced payment, as stated previously, was remitted by CTBC Holding director to the Bank, leading to CTBC Holding's gain of NTD\$1.7 billion from this case, which is far more than the loss of price gap (US\$30,474,717) presumed by the judgment in first instance, and thus, the presumed loss is not justifiable." "With regard to the legal aspects, the case above is a criminal case, and since CTBC Holding is a corporate entity, the employees' individual criminal liability will not have any influence on CTBC Holding. Therefore, there should be no significant disadvantageous effects on the financial or business affairs of CTBC Holding. Although the litigation result is not yet firm, the outcome should not have negative impacts on the finance and operation of CTBC Holding substantially. The litigation has been appealed to Criminal Division of Supreme Court. Guilty or not, the fact that CTBC Holding has not suffered damage would not be changed as a result."

The Bank received a letter from Chung Cheng Investment and Kuan Ho Construction & Development, the institutional directors of the Bank's parent company, CTBC Holding, on April 28, 2011 informing the Bank that according to the Analysis Report on the Sale of Structured Notes by CTBC Bank, Hong Kong Branch to Red Fire Developments Limited (the "Analysis Report") attached to the letter (Chung Hsin Chin No.1002243570005) dated March 10, 2011 from CTBC Holding, the Bank did not sustain loss from the sale of the structured notes. Based on the aforesaid Analysis Report, the premise of the Bank sustaining damages no longer stands for the prior execution of the contract dated February 9, 2009 by and among CTBC Holding, Chung Cheng Investment, and Kuan Ho Construction & Development. Therefore, the Bank has been requested to negotiate with Chung Cheng Investment and Kuan Ho Construction & Development for a reasonable resolution. On August 16, 2011, the Bank sent a letter to Chung Cheng Investment and Kuan Ho Construction & Development requesting the institutional directors of the Bank's parent company, CTBC Financial Holding Co., Ltd., to withdraw the right of recourse regarding the advance payment of US\$30,470 thousand to the Bank. The institutional directors of the Bank's parent company, CTBC Financial Holding Co., Ltd., responded on August 18, 2011, agreeing to the request and wishing that the Bank spend US\$20,900 thousand of the advance payment on emergency assistance and public welfare loans and pay US\$9,570 thousand to the Bank's parent company, CTBC Financial Holding Co., Ltd., as recovery for the investment income which originally should have been recognized by the Bank's parent company, CTBC Financial Holding Co., Ltd. The latter amount was considered to be the investment income of CT Opportunity Investment Company.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(b) Others

As for the real estate and non-performing loans transactions among the Bank and Tectonics Laboratories Co., Ltd. and other related parties, some employees were accused in violations of Banking Act and Securities and Exchange Act for engaging in such transactions and not disclosing related-party transactions. The case was transferred by prosecutors to the Taiwan High Court, who dismissed the case on May 31, 2013 as it was bundled with Shang Chong-Su-Zi No. 54 in 2008 and Jin Shang Chong-Su-Zi No. 75 in 2010 Criminal Judgments, indicating a separate investigation should be initiated. The case is expected to have no significant effect on the Bank's operation and shareholders' equity.

**10. Significant Catastrophic Losses: None.**

**11. Significant Subsequent Events:**

In order to bolster the Bank's capital and financial structure, and to meet the need of capital for the acquisition of Tokyo Star Bank, private placement for cash capital increase of 600,000 thousand common shares has been approved by the Board on January 22, 2014, with the amount raised no greater than \$15 trillion dollars. The Bank has sent the application to the governing authority for the approval. The Bank will execute the plan after the receipt of approval from the governing authority.

In order to strengthen the financial structure of the Bank and settle the overdue bonds or bonds purchased under repurchase agreements, the Board has approved the proposed limit of unsecured subordinated financial debentures for the year 2014, amounting to \$35 billion New Taiwan dollars (or equivalent foreign currency), on January 22, 2014.

**12. Others**

(A) Profitability

Unit: %

Items		December 31, 2013	December 31, 2012
Return on assets ratio (annual)	Before income tax	0.91	1.14
	After income tax	0.92	0.97
Return on equity ratio (annual)	Before income tax	13.00	15.98
	After income tax	13.07	13.64
Net income ratio		30.91	33.75

Note 1: Return on assets ratio = Net income before/after income tax ÷ average total assets.

Note 2: Return on equity ratio = Net income before/after income tax ÷ average total stockholders' equity.

Note 3: Net income ratio = Net income after income tax ÷ Net revenue.

Note 4: Net income before/after tax represented accumulated income of current year.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (B) The income and expenses arising from the joint marketing operation and information interoperability amongst the Financial Holding Company's subsidiaries were allocated as follows:

The joint marketing expenses between the Bank and CTBC Insurance Brokers Co., Ltd. (CTBC Insurance Brokers) were allocated to the Bank's management division costs and bonuses based on input labor hours and profitability of insurance products. Furthermore, the ratios of realized commission earned from insurance companies for the Bank and CTBC Insurance Brokers are 70% and 30%, respectively. For the year ended December 31, 2013 and 2012, the Bank received the allocation of fees and profits from CTBC Insurance Brokers amounting to \$5,085,735 and \$5,244,142 (\$508,790 and \$476,191, respectively, were under receivables).

### 13. Disclosure Required

- (A) Related information on significant transactions
- (a) Loans to others businesses or individuals: Not applicable to bank subsidiaries; others: None.
- (b) Endorsements and guarantees for others: Not applicable to bank subsidiaries; others: None.
- (c) Marketable securities held as of December 31, 2013: not applicable to banking subsidiaries; others:

Unit : In Thousands of New Taiwan Dollars/ Thousands of shares

Name of company holding securities	Marketable securities type and name	Relationship with the securities issuer	Account	December 31, 2013				Remark
				Number of shares	Book value	Shareholding ratio	Market price	
GCB Finance (HK) Limited	Shares- Econtext Asia	-	Available-for-sale financial assets—net	Common shares 70	1,612	0.01%	1,612	
GCB Finance (HK) Limited	Shares-Biodenta Corporation	-	Available-for-sale financial assets—net	Common share 8,300	204,097	7.52%	204,097	
GCB Finance (HK) Limited	Shares-ChinaAMC CSI300 IndexETF	-	Available-for-sale financial assets—net	Common share 1,160	131,731	0.29%	131,731	

- (d) Cumulative purchases or sales of the same investee's capital stock up to \$300,000 or 10% of paid-in capital: None.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(e) Acquisition of real estate up to \$300,000 or 10% of paid-in capital:

Unit : In Thousands of New Taiwan Dollars/Chinese Yuan

Acquiring company	Name of property	Transaction date	Transaction amount	Payment status	Counterparty	Relationship	Previous transfer data when counterparty is related party				Reference for acquisition price	Acquisition purpose and use status	Other additional term
							Owner	Relationship with issuer	Transfer date	Amount			
CTBC Bank Co., Ltd., Shanghai Branch	Land and buildings	March 18, 2013	CNY 295,838	CNY 295,838	Shanghai World Financial Center	Non-related party.	N/A	N/A	N/A	-	Valuation report	For owner's use	
CTBC Bank Co., Ltd.,	Land and buildings	July 31, 2013	NTD 461,800	NTD 461,800	Natural person	Non-related party.	N/A	N/A	N/A	-	Valuation report	For owner's use	

(f) Disposal of real estate up to \$300,000 or 10% of paid-in capital:

Unit : In Thousands of New Taiwan Dollars

Disposed company	Name of property	Transaction date	Acquired amount	Book value	Transaction amount	Balance due	Disposal gain or loss	Counterparty	Relationship	Disposal purpose	Price reference	Additional terms
CTBC Bank Co., Ltd.	Land	July 2, 2013	August 22, 2005	313,136	1,160	None	(27,061)	Natural person	Non-related party.	Comply with regulations	Based on the valuation report through an auction conducted by authorized auction company	None
		July 8, 2013			307,310	None		Xin Sheng Long Co., Ltd.				

(g) Discount on commission fees for transaction with related parties up to \$5,000: None.

(h) Receivables from related parties up to \$300,000 or over 10% of paid-in capital:

Unit : In Thousands of New Taiwan Dollars

Account receivable creditor	Counterparty	Relationship	Balance due from related party	Turnover rate	Overdue from related party		Subsequent collections from related party	Provision for bad debt
					Amount	Disposal		
CTBC Bank Co., Ltd.,	CTBC Insurance Brokers Co., Ltd.	Controlled by the same company which controls the Bank.	509,268	- %	-	-	Collected \$509,256 as of February 27, 2014	-

(i) Financial derivative transactions: Not applicable to bank subsidiaries; others: None

(j) Information on NPL disposal transaction:

1. Summary table of NPL disposal:

Unit : In Thousands of New Taiwan Dollars

Trade date	Counterparty	Debt component	Book value	Sale price	Gains on disposal	Additional term	Relationship
2013.01.31	K.K.MACEARTH	Secured loan	-	24,233	24,233	None	Non-related party
2013.09.10	Citibank International plc	Non-secured loan	104,582	121,975	17,393	None	Non-related party
2013.11.29	J.P Morgan Chase Bank	Secured and non-secured loan	1,594,993	860,611	(734,382)	None	Non-related party

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

2. Disposal of a single batch of NPL up to \$1,000,000 and information on each transaction:

Counterparty: J.P Morgan Chase Bank

Time of disposal: November 29, 2013

Unit : In Thousands of New Taiwan Dollars

The composition of the debt			Balance of debt	Book value	Allocation of sale price
Corporate	Secured		1,263,080	1,263,080	860,611
	Non-secured		331,913	331,913	
Individual	Secured	Residential mortgage loans	-	-	-
		Car loans	-	-	-
		Others	-	-	-
	Non-secured	Credit cards	-	-	-
		Debit cards	-	-	-
		Micro credit loans	-	-	-
		Others	-	-	-
Total			1,594,993	1,594,993	860,611

- (k) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information: None.

- (l) Business relationship and material transaction between the parent company and subsidiaries:

No. (Note)	Party	Counterparty	Relationship	Transaction status for the year ended December 31, 2013			
				Account	Amount	Terms	Percentage of consolidated net revenues or consolidated total assets
0	CTBC Bank Co., Ltd.	CTBC Bank (Philippines) Corp.	Parent to subsidiary	Due from Central Bank and call loans to bank / Deposits from Central Bank and other banks	2,006,650	Identical with non-related parties	0.09%
"	"	PT. Bank CTBC Indonesia	"	Deposits and remittances / cash and cash equivalents	100,667	"	0.005%

No. (Note)	Party	Counterparty	Relationship	Transaction status for the year ended December 31, 2012			
				Account	Amount	Terms	Percentage of consolidated net revenues or consolidated total assets
0	CTBC Bank Co., Ltd.	CTBC Bank (Philippines) Corp.	Parent to subsidiary	Due from Central Bank and call loans to bank / Deposits from Central Bank and other banks	1,369,392	Identical with non-related parties	0.07%
"	"	CTBC Capital Corp.	"	Deposits and remittances / Held-to-Maturity Financial Assets - Net	2,913,600	"	0.15%



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Note: Serial number is determined as follows:

1. 0 represents parent company.
2. Subsidiaries are numbered in a sequence of Arabic numerals from 1 based on company category.

(m) Other significant transactions that may have substantial influence upon the decisions made by financial statement users: None.

**(B) Information on investees**

Unit: In Thousands of New Taiwan Dollars

Unit: In Thousands of New Taiwan Dollars										
Name of investee	Location	Major operations	Ending ratio of shares	Book value of investment	Investment gains/losses recognized in current period	Ratio of shares held by the Bank and its associates				Remarks
						Shares currently held	Shares to be held	Total		
								shares	Ratio of shares	
CTBC Bank (Philippines) Corp.	3rd Fl., Tower One, Ayala Triangle, Ayala Avenue cor. Paseo De Roxas, Metro Manila, Makati, Philippines	Deposits and loans services of a commercial bank	99.60%	4,586,950	132,545	246,496	-	246,496	99.60%	The transaction on the left has been written off when composing consolidated financial report.
PT Bank CTBC Indonesia	16th Fl, Wisma Tamara, Jl Jenderal Sudirman Kev. 24 Jakarta 12920 Indonesia	Deposits and loans services of a commercial bank	99.00%	5,298,028	718,140	1	-	1	99.00%	"
CTBC Bank Corp.(Canada)	1518 West Broadway, Vancouver, B.C., Canada, V6J 1W8	Deposits and loans services of a commercial bank	100.00%	1,164,678	50,101	2,312	-	2,312	100.00%	"
CTBC Capital Corp.	801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017	Investment business	100.00%	18,842,826	3,145,153	6	-	6	100.00%	"
Grand Bills Finance Corporation	11F., No.560, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	Proprietary traders of Short-term bills and bonds	21.15%	1,702,873	71,838	114,399	-	114,399	21.15%	
GCB Finance (HK) Limited	Room 2812, 28th Floor, Two International Finance Centre, 8 Finance Street Central, Hong Kong	Corporate credit and investment business	100.00%	319,300	2,797	50,000	-	50,000	100.00%	
CTBC Bank Corp.(USA)	801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017	Deposits and loans services of a commercial bank	100.00%	11,228,557	3,208,609	Common Share 3 Preferred share 100	-	Common Share 3 Preferred share 100	100.00%	The transaction on the left has been written off when composing consolidated financial report.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(C) Related information on investments in Mainland China:

(a) Related information on investee companies in Mainland China

Unit : In Thousands of New Taiwan Dollars/ Thousands of US Dollars

Name of investee company in Mainland China	Main business	Total amount of paid-in capital	Method of investment (Note)	Accumulated outflow of investment from Taiwan as of January 1, 2013	Investment flows		Accumulated outflow of investment from Taiwan as of June 30, 2013	Percentage of ownership for direct or indirect investment	Investment gains (losses)	Book value as of June 30, 2013	Accumulated inward remittance of earnings as of June 30, 2013
					Outflow	Inflow					
CTBC Bank Co., Ltd., Shanghai Branch	Commercial banking	6,194,068 USD 206,045	5	3,816,778 USD 126,314	2,377,290 USD 79,731	-	6,194,068 USD 206,045	A branch in Shanghai; not an investee	5,626 USD 205	6,226,771 USD 207,906	None

Note: Five methods of investment are as below; identify one of them:

1. Invest in Mainland China companies through a third area.
2. Re-invest in Mainland China companies through another investee in a third area.
3. Re-invest in Mainland China companies through another existing investee in a third area.
4. Invest in Mainland China companies directly.
5. Other method: set up new overseas branches.

(b) Upper limit on investment in Mainland China:

Unit : In Thousands of New Taiwan Dollars/Thousands of US Dollars

Name of investor company	Accumulated outflow of investment from Taiwan to Mainland China as of December 31, 2013	Investment amounts authorized by Investment Commission, MOEA	Upper limit on investment authorized by Investment Commission, MOEA
CTBC Bank Co., Ltd	6,194,068 USD 206,045	6,253,051 USD 208,783	88,110,457 USD 2,941,918

**14. Segment Information:**

The Bank and its subsidiaries provide their chief operating decision maker with necessary information according to the characteristics of the business, to facilitate the assessment of performance and allocation of operational resources. The disclosures of assets, profits and losses are the same as the summary of significant accounting policies described in Note 4.

According to IFRS 8 “Operating Segments”, reportable segments are as below:

The major operating activities of Institutional Banking are commercial banking and capital market activities which provide clients with flexible and tailor-made financing services and the design, supply, and propriety trading of various financial products.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The major operating activity of Retail Banking is providing target clients with relevant financial services, including wealth management, credit cards, secured loans, and unsecured individual loans.

The major operating activities of other segments are investing and general administration. For the year ended December 31, 2013 and 2012, the above operating segments did not meet the criteria for reportable segments when applying quantitative thresholds.

(A) Segment information

<b>For the year ended December 31, 2013</b>	<b>Institutional Banking</b>	<b>Retail Banking</b>	<b>Other segments</b>	<b>Total</b>
Net interest income	\$ 13,367,109	14,464,360	474,677	28,306,146
Non-interest income	10,272,487	18,076,394	4,145,090	32,493,971
Net income	23,639,596	32,540,754	4,619,767	60,800,117
(Provision for) reversal of bad debt expenses and guarantee reserves	(1,055,386)	706,353	(5,829,786)	(6,178,819)
Operating expenses	(12,120,429)	(20,389,407)	(3,421,957)	(35,931,793)
Net Income Before Tax	<u>\$ 10,463,781</u>	<u>12,857,700</u>	<u>(4,631,976)</u>	<u>18,689,505</u>
Total Assets	<u>\$ 1,481,759,269</u>	<u>573,038,871</u>	<u>100,545,895</u>	<u>2,155,344,035</u>

<b>For the year ended December 31, 2012</b>	<b>Institutional Banking</b>	<b>Retail Banking</b>	<b>Other segments</b>	<b>Total</b>
Net interest income	\$ 15,583,688	12,644,382	(732,865)	27,495,205
Non-interest income	4,500,782	19,133,555	3,866,380	27,500,717
Net income	20,084,470	31,777,937	3,133,515	54,995,922
(Provision for) reversal of bad debt expenses and guarantee reserves	(1,002,687)	1,171,909	(664,753)	(495,531)
Operating expenses	(11,252,508)	(19,372,637)	(2,126,527)	(32,751,672)
Net Income Before Tax	<u>\$ 7,829,275</u>	<u>13,577,209</u>	<u>342,235</u>	<u>21,748,719</u>
Total Assets	<u>\$ 1,318,734,290</u>	<u>528,187,771</u>	<u>88,491,933</u>	<u>1,935,413,994</u>

(B) Geographic segment information:

The Bank and its subsidiaries prepare geographic segment information, which is shown as below, by the geographic location of foreign operations.

<b>Region</b>	<b>For the year ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income :		
Taiwan	\$ 49,665,705	45,332,768
Asia	8,874,248	7,469,636
North America	2,260,164	2,193,518
Total	<u>\$ 60,800,117</u>	<u>54,995,922</u>
Non-current assets :		
Taiwan	\$ 52,663,332	56,111,964
Asia	2,500,956	1,499,285
North America	2,227,703	2,083,411
Total	<u>\$ 57,391,991</u>	<u>59,694,660</u>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (C) Information on major customers: For the years ended December 31, 2013 and 2012, no individual customer of the Bank and its subsidiaries accounted for 10% or more of the Bank and its subsidiaries' revenue in the statements of income. Therefore, disclosure of information on major customers is not required.

**15. First-time adoption of IFRSs**

The consolidated financial reports of the Bank and its subsidiaries as of December 31, 2012 were prepared following former generally accepted accounting principles in the Republic of China. As stated in Note 4(A), the consolidated financial reports are included in the period covered by the consolidated yearly financial reports prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, the Regulations Governing the Preparation of Financial Reports by Securities Firms, the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, and IFRSs as accepted by the FSC., and follow IFRS 1 – “First-time Adoption of IFRSs” as accepted by the FSC.

Accounting policies included in Note 4 applied to the comparative consolidated financial statements as of December 31, 2012, the consolidated balance sheet as of December 31, 2012, and the first-time IFRS consolidated balance sheet as of January 1, 2012, the conversion date for the consolidated entities.

When preparing reports for the year ended December 31, 2012, the Bank and its subsidiaries began with the reporting amount under former generally accepted accounting principles in the Republic of China. The conversion from former generally accepted accounting principles in the Republic of China to IFRSs as accepted by the FSC has impacts on the financial position, financial performance, and cash flows of the Bank and its subsidiaries as of each time-point or for each period, and they are as below.

According to IFRS 1 “First-time Adoption of IFRSs”, except when optional exemptions or mandatory exceptions apply, when an entity adopts IFRSs for the first time, the entity should prepare its financial statements following those accounting standards effective at the time of the adoption and make retrospective adjustments. The optional exemptions applied by the Bank and its subsidiaries are as follows:

1. The Bank and its subsidiaries elect not to retrospectively apply IFRS 3 to those mergers and acquisitions taking place before the date of transition to IFRSs. Therefore, there is no need to adjust the book value of mergers and acquisitions taking place before the date of transition to IFRSs.
2. The Bank and its subsidiaries elect to retrospectively apply IAS 21 “The Effects of Changes in Foreign Exchange Rates” to accumulative translation difference of overseas subsidiaries on conversion date. As the functional currencies of overseas subsidiaries remain the same after the conversion, the conversion incurs no significant difference.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

3. For premises that were revaluated following generally accepted accounting principles in the Republic of China before the date of conversion to IFRSs, the Bank and its subsidiaries elect to use the revaluation as deemed cost at the conversion date. Other equipments underwent no revaluation. As the accounting treatment before conversion date was largely consistent with IAS 16 “Property, Plant and Equipment” as accepted by the FSC, the Bank and its subsidiaries elect to retrospectively apply IAS 16 “Property, Plant and Equipment” as accepted by the FSC in accounting treatment of premises and equipment, and no carrying amount adjustment is necessary.
4. As the accounting treatment before conversion date was largely consistent with IAS 38 “Intangible Assets” as accepted by the FSC, the Bank and its subsidiaries elect to retrospectively apply IAS 38 “Intangible Assets” as accepted by the FSC in accounting treatment of intangible assets, and no carrying amount adjustment are necessary.
5. According to IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities”, decommissioning liability, and the amount of changes in decommissioning liability, related to plants, equipment, and properties, should be part of the cost of assets and amortized over the remaining useful life. The Bank and its subsidiaries elect to retrospectively apply the standard. After assessment, no significant difference was found for this liability.
6. The Bank and its subsidiaries elect to recognize all cumulative actuarial gains and losses at the date of conversion to IFRSs and transfer them to retained earnings.
7. The Bank and its subsidiaries elect to apply the exemption for compound financial instruments, and do not retrospectively adjust the accounting treatment of convertible corporate bonds that have already matured.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(A) Assets, liabilities and equity adjustments

(a) Adjustments for consolidated statement of financial position on January 1, 2012

Unit : In Thousands of New Taiwan Dollars

Generally accepted accounting principles in the Republic of China (R.O.C. GAAP)		IFRS conversion's impact		IFRSs accepted by the FSC	
Item	Amount	Difference in recognition and measurement	Difference in presentation	Amount	Note
Cash and cash equivalents	\$ 36,847,941	-	-	36,847,941	Cash and cash equivalents
Due from Central Bank and call loans to bank	118,151,855	-	-	118,151,855	Due from Central Bank and call loans to bank
Financial assets measured at fair value through profit or loss	62,223,529	(699,131)	-	61,524,398	Financial assets measured at fair value through profit or loss (6)
Available-for-sale financial assets—net	321,225,166	-	-	321,225,166	Available-for-sale financial assets—net
	-	-	2,067,772	2,067,772	Derivative financial assets—hedging (7)
Securities purchased under reverse repurchase agreements	754,915	578,796	-	1,333,711	Securities purchased under reverse repurchase agreements (6)
Receivables—net	128,026,615	3,077,675	(1,103,103)	130,001,187	Receivables—net (4) and (6)
	-	-	1,306,043	1,306,043	Current income taxes assets (4)
Loans—net	1,053,212,396	-	-	1,053,212,396	Loans—net
Held-to-maturity financial assets—net	95,932,513	-	-	95,932,513	Held-to-maturity financial assets—net
Investments under equity method - net	2,080,690	-	-	2,080,690	Investment under equity method—net
Other financial assets—net	14,576,538	-	(6,217,075)	8,359,463	Other financial assets—net (7) and (8)
Premises and equipment - net	33,963,877	-	(2,358,822)	31,605,055	Premises and equipment—net (9) and (10)
Intangible assets—net	12,234,901	-	-	12,234,901	Intangible assets—net
	-	571,617	1,960,547	2,532,164	Deferred income tax assets—net (4)
Other assets—net	8,246,442	(49,867)	4,837,108	13,033,683	Other assets—net (3)~(4) and (8)~(10)
<b>TOTAL ASSETS</b>	<b>\$ 1,887,477,378</b>	<b>3,479,090</b>	<b>492,470</b>	<b>1,891,448,938</b>	<b>TOTAL ASSETS</b>
<b>Liabilities</b>					
Deposits from Central Bank and other banks	\$ 51,364,068	-	-	51,364,068	Deposits from Central Bank and other banks
Due to Central Bank and other banks	7,527,128	-	-	7,527,128	Due to Central Bank and other banks
Financial liabilities measured at fair value through profit or loss	25,379,616	1,150,726	-	26,530,342	Financial liabilities measured at fair value through profit or loss
	-	-	48,576	48,576	Derivative financial liabilities—hedging (7)
Securities sold under repurchase agreements	74,680,985	578,796	-	75,259,781	Securities sold under repurchase agreements (6)
Payables	54,685,038	(962,510)	(1,473,534)	52,248,994	Payables (1), (4), (6), and (11)
	-	-	1,473,534	1,473,534	Current income tax liabilities (4)
Deposits and remittances	1,459,527,462	-	-	1,459,527,462	Deposits and remittances
Financial debentures	55,182,382	-	-	55,182,382	Financial debentures
Other financial liabilities	21,069,881	-	(1,895,402)	19,174,479	Other financial liabilities (7) and (8)
	-	3,270,316	1,851,307	5,121,623	Provisions (2)~(4) and (11)~(12)
	-	42,751	492,470	535,221	Deferred tax liabilities (4)
Other liabilities	4,760,667	983,918	(4,481)	5,740,104	Other liabilities (1), (8) and (12)
<b>Total Liabilities</b>	<b>1,754,177,227</b>	<b>5,063,997</b>	<b>492,470</b>	<b>1,759,733,694</b>	<b>Total Liabilities</b>
<b>Stockholders' Equity - Parent Company</b>					
Common stock	75,371,376	-	-	75,371,376	Common stock
Capital surplus	16,892,141	-	-	16,892,141	Capital surplus
Retained earnings					Retained earnings
Legal reserve	29,082,575	-	-	29,082,575	Legal reserve
Special reserve	205,584	-	-	205,584	Special reserve
Undistributed earnings	16,866,339	(2,777,885)	-	14,088,454	Undistributed earnings (2)~(5)
Other adjustments to stockholders' equity	-	-	(4,008,590)	(4,008,590)	Other items in stockholders' equity (13) and (14)
Unrealized revaluation increment	12,949	(12,949)	-	-	(5)
Cumulative translation adjustments	(2,238,369)	-	2,238,369	-	(13)
Unrealized gains and losses on financial instruments	(1,770,221)	-	1,770,221	-	(14)
Net loss not recognized as pension cost	(1,205,927)	1,205,927	-	-	(3)
Minority interest	83,704	-	-	83,704	Non-controlling interest
<b>Total Stockholders' Equity</b>	<b>133,300,151</b>	<b>(1,584,907)</b>	<b>-</b>	<b>131,715,244</b>	<b>Total Stockholders' Equity</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,887,477,378</b>	<b>3,479,090</b>	<b>492,470</b>	<b>1,891,448,938</b>	<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(b) Adjustments for consolidated statement of financial position on December 31, 2012

Unit : In Thousands of New Taiwan Dollars

Generally accepted accounting principles in the Republic of China (R.O.C. GAAP)		IFRS conversion's impact		IFRSs accepted by the FSC		
Item	Amount	Difference in recognition and measurement	Difference in presentation	Amount	Item	Note
Cash and cash equivalents	\$ 37,258,838	-	-	37,258,838	Cash and cash equivalents	
Due from Central Bank and call loans to bank	109,218,345	-	-	109,218,345	Due from Central Bank and call loans to bank	
Financial assets measured at fair value through profit or loss	74,609,385	(50,881)	-	74,558,504	Financial assets measured at fair value through profit or loss	(6)
Available-for-sale financial assets – net	308,287,286	-	-	308,287,286	Available-for-sale financial assets – net	
	-	-	1,577,954	1,577,954	Derivative financial assets – hedging	(7)
Receivables – net	138,519,744	808,136	(900,653)	138,427,227	Receivables – net	(4) and (6)
	-	-	1,182,828	1,182,828	Current income taxes assets	(4)
Loans – net	1,125,360,672	-	-	1,125,360,672	Loans – net	
Held-to-maturity financial assets – net	70,965,629	-	-	70,965,629	Held-to-maturity financial assets – net	
Investments under equity method - net	2,055,863	-	-	2,055,863	Investment under equity method – net	
Other financial assets – net	8,789,943	-	(4,175,615)	4,614,328	Other financial assets – net	(7) and (8)
Premises and equipment - net	37,394,575	-	(2,589,727)	34,804,848	Premises and equipment – net	(9) and (10)
Intangible assets – net	12,190,876	-	-	12,190,876	Intangible assets – net	
	-	634,752	2,014,124	2,648,876	Deferred income tax assets – net	(4)
Other assets – net	8,816,682	(44,880)	3,490,118	12,261,920	Other assets – net	(3)–(4) and (8)–(10)
<b>TOTAL ASSETS</b>	<b>\$ 1,933,467,838</b>	<b>1,347,127</b>	<b>599,029</b>	<b>1,935,413,994</b>	<b>TOTAL ASSETS</b>	
<b>Liabilities</b>						
Deposits from Central Bank and other banks	\$ 30,690,419	-	-	30,690,419	Deposits from Central Bank and other banks	
Due to Central Bank and other banks	5,008,601	-	-	5,008,601	Due to Central Bank and other banks	
Financial liabilities measured at fair value through profit or loss	24,652,431	-	-	24,652,431	Financial liabilities measured at fair value through profit or loss	
	-	-	34,959	34,959	Derivative financial liabilities – hedging	(7)
Securities sold under repurchase agreements	60,777,839	-	-	60,777,839	Securities sold under repurchase agreements	(6)
Payables	59,277,338	(1,259,273)	(1,716,717)	56,301,348	Payables	(1), (4), (6), and (11)
	-	-	1,716,717	1,716,717	Current income tax liabilities	(4)
Deposits and remittances	1,525,115,648	-	-	1,525,115,648	Deposits and remittances	
Financial debentures	54,121,632	-	-	54,121,632	Financial debentures	
Other financial liabilities	24,984,008	-	(2,166,971)	22,817,037	Other financial liabilities	(7) and (8)
	-	3,162,152	2,246,977	5,409,129	Provisions	(2)–(4) and (11)–(12)
		42,751	599,029	641,780	Deferred tax liabilities	(4)
Other liabilities	6,751,298	919,061	(114,965)	7,555,394	Other liabilities	(1), (8) and (12)
<b>Total Liabilities</b>	<b>1,791,379,214</b>	<b>2,864,691</b>	<b>599,029</b>	<b>1,794,842,934</b>	<b>Total Liabilities</b>	
<b>Stockholders' Equity - Parent Company</b>						
Common stock	75,371,376	-	-	75,371,376	Common stock	
Capital surplus	17,182,059	-	-	17,182,059	Capital surplus	
Retained earnings					Retained earnings	
Legal reserve	34,142,459	-	-	34,142,459	Legal reserve	
Special reserve	1,975,805	-	-	1,975,805	Special reserve	
Undistributed earnings	18,400,978	(3,086,135)	-	15,314,843	Undistributed earnings	(2)–(5)
Other adjustments to stockholders' equity	-	-	(3,491,702)	(3,491,702)	Other items in stockholders' equity	(13) and (14)
Unrealized revaluation increment	12,949	(12,949)	-	-		(5)
Cumulative translation adjustments	(3,397,351)	-	3,397,351	-		(13)
Unrealized gains and losses on financial instruments	(94,351)	-	94,351	-		(14)
Net loss not recognized as pension cost	(1,581,520)	1,581,520	-	-		(3)
Minority interest	76,220	-	-	76,220	Non-controlling interest	
<b>Total Stockholders' Equity</b>	<b>142,088,624</b>	<b>(1,517,564)</b>	<b>-</b>	<b>140,571,060</b>	<b>Total Stockholders' Equity</b>	
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,933,467,838</b>	<b>1,347,127</b>	<b>599,029</b>	<b>1,935,413,994</b>	<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(B) Comprehensive income adjustments

Adjustments of consolidated comprehensive income statement for the year ended December 31, 2012

Unit : In Thousands of New Taiwan Dollars

Generally accepted accounting principles in the Republic of China (R.O.C. GAAP)		IFRS conversion's impact		IFRSs accepted by the FSC	
Item	Amount	Difference in recognition and measurement	Difference in presentation	Amount	Note
Interest income	\$ 41,736,271	-	(507,513)	41,228,758	(15)
Less: Interest expenses	(13,737,554)	4,001	-	(13,733,553)	(2)
<b>Net interest income</b>	<b>27,998,717</b>	<b>4,001</b>	<b>(507,513)</b>	<b>27,495,205</b>	
Non-interest income					
Service fee and commission income	23,706,305	(911,097)	-	22,795,208	(1)
Gains and losses on financial assets or liabilities measured at fair value through profit or loss	2,163,966	-	507,513	2,671,479	(15)
Realized gains on available-for-sale financial assets	980,448	-	-	980,448	
Foreign exchange gains	2,016,524	-	-	2,016,524	
Gains on reversal of impairment loss	6,275	-	-	6,275	
Gains from investment under equity method	79,801	-	-	79,801	
Public-welfare lottery payment	(2,086,800)	-	-	(2,086,800)	
Other net non-interest income	1,034,501	-	3,281	1,037,782	(10)
<b>Net Revenue</b>	<b>55,899,737</b>	<b>(907,096)</b>	<b>3,281</b>	<b>54,995,922</b>	
Provision for bad debt expenses	(495,531)	-	-	(495,531)	
<b>Operating expenses</b>					
Personnel expenses	(18,393,914)	183,416	-	(18,210,498)	(2) and (3)
Depreciation and amortization expenses	(1,898,311)	-	(3,281)	(1,901,592)	(10)
Other general and administrative expenses	(13,550,679)	911,097	-	(12,639,582)	(1)
<b>Net Income Before Tax from Continuing Operations</b>	<b>21,561,302</b>	<b>187,417</b>	<b>-</b>	<b>21,748,719</b>	
Income tax expenses	(3,154,869)	(31,861)	-	(3,186,730)	(4)
<b>Consolidated Gross Income</b>	<b>\$ 18,406,433</b>	<b>155,556</b>	<b>-</b>	<b>18,561,989</b>	
				(1,276,515)	
				1,674,633	
				(558,803)	
				1,352	
				207,138	
				47,805	
				<b>18,609,794</b>	
<b>Consolidated Income Attributable to:</b>				<b>Consolidated Income Attributable to:</b>	
Parent company	\$ 18,400,443	155,556	-	18,555,999	
Minority interest	5,990	-	-	5,990	
<b>\$ 18,406,433</b>	<b>155,556</b>	<b>-</b>	<b>18,561,989</b>		
<b>Consolidated Comprehensive Income</b>				<b>Consolidated Comprehensive Income</b>	
<b>Attributable to:</b>				<b>Attributable to:</b>	
Parent company	\$ -	-	-	18,609,081	
Minority interest	-	-	-	713	
<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>18,609,794</b>		



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(C) Material adjustment to statement of cash flows

Under R.O.C. GAAP, the Bank and its subsidiaries prepared the consolidated statement of cash flows using indirect method and classified the interests/ dividends received and tax/interests paid as part of operating cash flows and were not asked to show them as separate items. Following IAS 7 “Statement of Cash Flows” as accepted by the FSC, however, for the year ended December 31, 2012, the Bank and its subsidiaries showed them as separate items under operating cash flows, and the amount was as follows: interests received amounted to \$41,271,193; interests paid amounted to \$13,537,889; tax paid amounted to \$3,058,332.

According to the Regulations Governing the Preparation of Financial Reports by Public Banks, several items originally classified under cash flows from investing activities, such as changes in available-for-sale financial assets, purchases and paydowns of held to maturity financial assets, changes in due from Central Bank, call loans to banks and loans, and under cash flows from financing activities, such as deposits from Central Bank and other banks, deposits and remittances, should be classified under cash flows from operating activities instead.

Except for those stated above, the consolidated statement of cash flows prepared in accordance with IFRSs as accepted by the FSC and with R.O.C. GAAP had no significant differences.

(D) Adjustment notes

(1) Customer loyalty programs

Following IFRSs, the Bank and its subsidiaries retrospectively apply IFRIC 13 Customer Loyalty Programs and adjust the way they recognize the revenue related to credit card points. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for accrued expenses, a decrease of \$983,918, and \$919,061, respectively; for other liabilities, an increase of \$983,918 and \$919,061, respectively. Also, for the consolidated income statement for the year ended December 31, 2012, this adjustment reduces commission income and general and administrative expenses by \$911,097.

(2) Employee benefits such as retiree deposits with favorable rates

According to IAS 19 and the Regulations Governing the Preparation of Financial Reports by Public Banks, effective from year 2013, when recognizing the post-employment benefits, such as retiree deposits with favorable rates, the Bank and its subsidiaries should consider the actuarial amount and recognize it accordingly. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for provisions, an increase of \$157,131 and \$209,997, respectively; for retained earnings, a decrease of \$157,131 and \$196,428, respectively. Also, for the consolidated income statement for the year ended 2012, this adjustment increases employee benefits expenses by \$17,570, and reduces interest expenses by \$4,001.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(3) Adjustments to pension actuarial gains and losses and pension obligations

Following the instructions related to employee benefits in IFRS 1, the Bank and its subsidiaries elect to apply the exemption provided therein and retrospectively apply IAS 19 to adjust (1) items related to unrecognized transitional net benefit obligation recognized under R.O.C. GAAP, (2) items related to supplementary pension liability recognition adjustments recognized under R.O.C. GAAP, and (3) part of the actuarial assumptions. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for provisions, an increase of \$1,949,526 and \$1,897,439, respectively; for retained earnings, a decrease of \$3,205,320 and \$3,724,825, respectively; for other assets, a decrease of \$49,867 and \$44,880, respectively; for other adjustments to stockholders' equity, an increase of \$1,205,927 and \$1,581,520, respectively. Also, for the consolidated income statement for the year ended 2012, this adjustment reduces employee benefits expenses by \$200,986.

(4) Income tax

Following IAS 12 and SIC 21, the Bank and its subsidiaries reclassify land revaluation increments tax payable, which is a taxable temporary difference under deferred tax liabilities. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for provisions, a decrease of \$42,751 on all these dates; for deferred tax liabilities, an increase of \$42,751 on all these dates.

Following IFRS 1 and the Regulations Governing the Preparation of Financial Reports by Public Banks, effective from year 2013, the Bank and its subsidiaries reclassify current tax assets, current tax liabilities and deferred tax assets. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for current tax assets, an increase of \$1,306,043 and \$3,608, respectively; for receivables, a decrease of \$1,103,103 and \$900,653, respectively; for current tax liabilities, an increase of \$1,473,534 and \$1,716,717, respectively; for payables, a decrease of \$1,473,534 and \$1,716,717, respectively; for deferred tax assets, an increase of \$1,960,547 and \$2,014,124, respectively; for other assets, a decrease of \$1,671,017 and \$1,697,270, respectively; for deferred tax liabilities, an increase of \$492,470 and \$599,029, respectively.

The employee benefit obligation adjustments mentioned in notes (b) and (c) above incur income tax effects. On January 1 and December 31, 2012, the influence of the income tax effects on related accounts is as follows: for deferred tax assets, an increase of \$571,617 and \$634,752, respectively; for retained earnings, an increase of \$571,617 and \$666,613, respectively. Also, for the consolidated income statement for the year ended 2012, the income tax effects increase income tax expenses by \$31,861.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(5) Deemed costs of premises and equipment

Following the instructions related to deemed costs of premises and equipment in IFRS 1, the Bank and its subsidiaries elect to apply the exemption provided therein, and transferred the revaluation of land and buildings, which followed R.O.C. GAAP, to retained earnings. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other adjustments to stockholders' equity, a decrease of \$12,949 on all these dates; for retained earnings, an increase of \$12,949 on all these dates. The amount of stockholders' equity as a whole is not affected by this reclassification.

(6) Regular way transactions involving financial instruments

Following IAS 39, which states that financial assets classified in the same way should be recognized using the same method, the Bank and its subsidiaries replace settlement-date accounting with trade-date accounting in the accounting treatment for the debt securities. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for financial assets measured at fair value through profit or loss, a decrease of \$699,131 and \$50,881, respectively; for financial liabilities measured at fair value through profit or loss, an increase of \$1,150,726 and \$0, respectively; for receivables, an increase of \$3,077,675 and \$808,136, respectively; for payables, an increase of \$1,227,818 and \$757,255, respectively; for securities purchased under reverse repurchase agreements, an increase of \$578,796 and \$0, respectively; for securities sold under repurchase agreements, an increase of \$578,796 and \$0, respectively.

(7) Hedging derivative financial assets and liabilities

Following the Regulations Governing the Preparation of Financial Reports by Public Banks, effective from year 2013, the Bank and its subsidiaries reclassify the hedging derivative financial assets and liabilities out of, respectively, other financial assets and liabilities. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for hedging derivative financial assets, an increase of \$2,067,772, and \$1,577,954, respectively; for other financial assets, a decrease of \$2,067,772 and \$1,577,954, respectively; for hedging derivative financial liabilities, an increase of \$48,576 and \$34,959, respectively; for other financial liabilities, a decrease of \$48,576 and \$34,959, respectively. The amount of assets and liabilities as a whole is not affected by this reclassification.

(8) Refundable deposits/Guarantee deposits received

Following the Regulations Governing the Preparation of Financial Reports by Public Banks, effective from year 2013, the Bank and its subsidiaries reclassify the refundable deposits and guarantee deposits received which were originally included in other financial assets and liabilities under other assets and liabilities. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other financial assets, a decrease of \$4,149,303 and \$2,597,661, respectively; for other assets, an increase of \$4,149,303 and \$2,597,661, respectively; for other financial liabilities, a decrease of \$1,846,826 and \$2,132,012, respectively; for other liabilities, an increase of \$1,846,826 and \$2,132,012, respectively. The amount of assets and liabilities as a whole is not affected by this reclassification.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(9) Superficies**

Following IAS 17, the Bank and its subsidiaries reclassify the superficieses originally included in premises and equipment under other assets. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for premises and equipment, a decrease of \$2,988,477 and \$2,921,194, respectively; for other assets, an increase of \$2,988,477 and \$2,921,194, respectively. The amount of assets as a whole is not affected by this reclassification.

**(10) Idle premises and equipment**

Following IAS 16, the Bank and its subsidiaries reclassify the idle premises and equipment originally included in other assets under premises and equipment. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other assets, a decrease of \$629,655 and \$331,467, respectively; for premises and equipment, an increase of \$629,655 and \$331,467, respectively. The amount of assets as a whole is not affected by this reclassification. Also, for the consolidated comprehensive income statement for the year ended 2012, this adjustment increases both other net non-interest income and depreciation and amortization expenses by \$3,281. The amount of gross income is not affected by this reclassification.

**(11) Settlement compensation payables**

According to IAS 37, the settlement compensation payables of the Bank and its subsidiaries have the nature of provisions, and so they are reclassified. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for payables, a decrease of \$1,206,410 and \$1,097,467, respectively; for provisions, an increase of \$1,206,410 and \$1,097,467, respectively. The amount of liabilities as a whole is not affected by this reclassification.

**(12) Provisions**

According to IFRS 1 and the Regulations Governing the Preparation of Financial Reports by Public Banks, effective from year 2013, provisions should be recognized separately, so accrued pension liabilities and other liabilities reserves are reclassified under provisions. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other liabilities, a decrease of \$1,851,307 and \$2,246,977, respectively; for provisions, an increase of \$1,851,307 and \$2,246,977, respectively. The amount of liabilities as a whole is not affected by this adjustment.

**(13) Cumulative translation adjustments**

According to the Regulations Governing the Preparation of Financial Reports by Public Banks, effective from year 2013, other items of stockholders' equity should be listed separately in the consolidated balance sheet, and that applies to cumulative translation adjustments. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other items of stockholders' equity, a decrease of \$2,238,369 and \$3,397,351, respectively; for cumulative translation adjustments, an increase of \$2,238,369 and \$3,397,351, respectively. The amount of stockholders' equity as a whole is not affected by this adjustment.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(14) Unrealized gains and losses on financial products

According to the Regulations Governing the Preparation of Financial Reports by Public Banks, effective from year 2013, other items of stockholders' equity should be listed separately in the consolidated balance sheet, and that applies to unrealized gains and losses on financial instruments. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other items of stockholders' equity, a decrease of \$1,770,221 and \$94,351, respectively; for unrealized gains and losses on financial instruments, an increase of \$1,770,221 and \$94,351, respectively. The amount of stockholders' equity as a whole is not affected by this adjustment.

(15) Gains and losses on financial assets or liabilities measured at fair value through profit or loss

Following the Regulations Governing the Preparation of Financial Reports by Public Banks, effective from year 2013, the Bank and its subsidiaries reclassify under gains and losses on financial assets or liabilities measured at fair value through profit or loss the interest income produced by such financial assets or liabilities that was originally recognized as interest income. For the year ended 2012, the effect of this adjustment on related accounts is as follows: for interest income, a decrease of \$507,513; for gains and losses on financial assets or liabilities measured at fair value through profit or loss, an increase of \$507,513. The amount of gross income is not affected by this reclassification.

**CTBC BANK CO., LTD.**  
**FINANCIAL REPORTS**  
**DECEMBER 31, 2013 AND 2012**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

**Address: No. 3 Sung-Shou Road, Taipei, Taiwan, R.O.C.**  
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**Independent Auditors' Report**

The Board of Directors  
CTBC Bank Co., Ltd.

We have audited the accompanying balance sheets of CTBC Bank Co., Ltd. as of December 31, 2013 and December 31 and January 1 of 2012, and related comprehensive income statements for the year ended December 31, 2013 and 2012, changes in stockholders' equity, and cash flows for the year ended December 31, 2013 and 2012. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements mentioned above present fairly, in all material respects, the financial position of CTBC Bank Co., Ltd. as of December 31, 2013 and December 31 and January 1 of 2012, along with its financial performance and cash flow for year ended December 31, 2013 and 2012, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, the Regulations Governing the Preparation of Financial Reports by Securities Firms and the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants.

The structured notes cases as stated in Note 9(D) are still under investigation by the judiciary, and the results remain uncertain.

KPMG

Taipei, Taiwan, R.O.C.  
February 27, 2014

Notice to Readers

The accompanying financial reports are intended only to present the financial position, financial performance and cash flows in accordance with IFRSs accepted by the Financial Supervisory Commission and not those of any other jurisdictions. The standards, procedures, and practices to review such financial reports are those generally accepted and applied in the Republic of China.

It should be noted the independent auditors' report and the accompanying financial reports were originally prepared in Chinese. As information loss underlies the nature of language transition, when conflicts or ambiguities arise in interpretations between the two versions, the Chinese version shall prevail.

**CTBC BANK CO., LTD.**  
**BALANCE SHEETS**  
**December 31, 2013 and December 31, and January 1 of 2012**  
**(Expressed In Thousands of New Taiwan Dollars)**

	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
<b>ASSETS</b>						
Cash and cash equivalents (Note 4 and 6(A))	\$ 81,377,414	4	35,870,710	2	32,573,288	2
Due from Central Bank and call loans to bank (Note 6(B) and 8)	113,876,926	5	95,212,837	5	102,174,935	6
Financial assets measured at fair value through profit or loss	73,702,161	4	73,585,713	4	61,214,243	3
- (Note 4, 6(C), (T) and (AS), and 7)						
Available-for-sale financial assets—net (Note 4, 6(D), (T) and (AS), 8, and 9(A))	287,574,678	14	300,793,151	16	312,895,651	16
Derivative financial assets—hedging (Note 4 and 6(E))	910,113	-	1,577,954	-	2,067,772	-
Securities purchased under reverse repurchase agreements (Note 4 and 6(F))	-	-	-	-	578,796	-
Receivables—net (Note 4, 6(G) and (J), 7, and 8)	164,100,960	8	137,193,336	7	128,586,665	7
Current income taxes assets (Note 4)	910,400	-	1,152,174	-	1,253,137	-
Assets held for sale—net (Note 4 and 6(H))	6,323,343	-	-	-	-	-
Loans—net (Note 4, 6(I), (J) and (AR), and 7)	1,201,424,577	58	1,070,104,445	57	1,001,774,522	55
Held-to-maturity financial assets—net (Note 4, 6(K), (L) and (T), and 8)	60,392,499	2	69,893,179	3	93,759,422	5
Investment under equity method—net (Note 4 and 6(M))	31,914,655	2	29,255,758	2	28,802,497	2
Other financial assets—net (Note 4, 6(J), (N), 8, and 13(C))	2,266,138	-	3,513,245	-	7,004,909	-
Premises and equipment—net (Note 4, 6(O) and (AL), 9(A) and 13(A))	33,595,951	2	34,256,442	2	31,014,302	2
Intangible assets—net (Note 4 and 6(P))	11,844,172	1	11,818,246	1	11,860,472	1
Deferred income tax assets—net (Note 4 and 6(AB))	2,520,111	-	2,421,940	-	2,291,193	-
Other assets—net (Note 4, 6(Q) and (AL), and 8)	8,595,580	-	10,206,896	1	10,799,179	1
<b>TOTAL ASSETS</b>	<b>\$2,081,327,678</b>	<b>100</b>	<b>1,876,856,026</b>	<b>100</b>	<b>1,828,650,983</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>						
LIABILITIES:						
Deposits from Central Bank and other banks (Note 6(R))	\$ 48,126,875	2	30,209,829	2	49,693,276	3
Due to Central Bank and other banks (Note 6(S))	3,217,210	-	2,631,639	-	4,641,210	-
Financial liabilities measured at fair value through profit or loss	27,256,378	1	24,582,683	1	26,480,276	1
(Note 4 and 6(C))						
Derivative financial liabilities—hedging (Note 4 and 6(E))	255,112	-	34,959	-	48,576	-
Securities sold under repurchase agreements (Note 4 and 6(T))	61,038,194	3	60,777,839	3	75,259,781	4
Payables (Note 6(U) and 7)	43,296,875	2	54,481,183	3	50,113,302	3
Current income tax liabilities (Note 4)	1,311,106	-	1,644,908	-	1,435,750	-
Deposits and remittances (Note 6(V) and 7)	1,665,207,157	80	1,472,367,151	79	1,404,002,730	77
Financial debentures (Note 6(E) and (W))	58,269,949	3	54,121,632	3	55,182,382	3
Other financial liabilities (Note 6(X))	15,656,655	1	22,817,037	1	19,174,479	1
Provisions (Note 4, 6(Y) and (AA))	4,983,852	-	5,254,809	-	4,996,116	-
Deferred tax liabilities (Note 4 and 6(AB))	234,453	-	606,893	-	535,221	-
Other liabilities (Note 6(Z))	5,603,100	-	6,830,624	-	5,456,344	-
<b>Total Liabilities</b>	<b>1,934,476,916</b>	<b>92</b>	<b>1,736,361,186</b>	<b>92</b>	<b>1,697,019,443</b>	<b>92</b>
<b>STOCKHOLDERS' EQUITY:</b>						
Common stock (Note 6(AD))	78,622,897	4	75,371,376	4	75,371,376	4
Capital surplus (Note 6(AD))	16,000,568	1	16,000,568	1	16,000,568	1
Capital premium	1,181,491	-	1,181,491	-	891,573	-
Others						
Retained earnings:						
Legal reserve	39,662,592	2	34,142,459	2	29,082,575	2
Special reserve	299,935	-	1,975,805	-	205,584	-
Undistributed earnings (Note 6(AE))	15,692,181	1	15,314,843	1	14,088,454	1
Other items in stockholders' equity (Note 6(AD))	(4,608,902)	-	(3,491,702)	-	(4,008,590)	-
<b>Total Equity</b>	<b>146,850,762</b>	<b>8</b>	<b>140,494,840</b>	<b>8</b>	<b>131,631,540</b>	<b>8</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$2,081,327,678</b>	<b>100</b>	<b>1,876,856,026</b>	<b>100</b>	<b>1,828,650,983</b>	<b>100</b>

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



**CTBC BANK CO., LTD.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**For The Year Ended December 31, 2013 And 2012**  
**(Expressed In Thousands of New Taiwan Dollars)**

	For the year ended December 31					
	2013		2012			
	Amount	%	Amount	%	Change	%
Interest income (Note 6(AH))	\$ 38,154,954	64	36,914,297	72		3
Less: Interest expenses(Note 6 (AH))	(13,624,343)	(23)	(12,983,418)	(25)		5
Net interest income(Note 6(AH))	24,530,611	41	23,930,879	47		3
Service fee and commission income (Note 6(AI))	24,028,242	40	22,418,547	44		7
Gains on financial assets or liabilities measured at fair value through profit or loss (Note 6(AJ))	5,373,877	9	2,418,991	5		122
Realized gains on available-for-sale financial assets Note 6(AK))	1,394,551	2	911,935	2		53
Foreign exchange gains	1,825,088	3	1,844,329	3		(1)
Impairment loss (Note 6(AL))	(21,722)	-	(645)	-		3,268
Proportionate share of gains from associates or joint ventures under equity method (Note 6(M))	4,120,574	7	1,256,841	2		228
Other net non-interest income (Note 6(AM))	869,860	1	768,901	1		13
Public-welfare lottery payment	(2,086,800)	(3)	(2,086,800)	(4)	-	
Net Revenue	60,034,281	100	51,462,978	100		17
Provisions for bad debt expenses and guarantee reserve (Note 6(J) and (AN))	(5,999,304)	(10)	(345,294)	(1)		1,637
Operating expenses:						
Employee benefits expenses (Note 6(AO))	(18,557,718)	(31)	(16,548,124)	(32)		12
Depreciation and amortization expenses (Note 6(AP))	(1,625,951)	(3)	(1,733,686)	(3)		(6)
Other general and administrative expenses (Note 6(AQ))	(12,359,123)	(20)	(11,474,835)	(22)		8
Total operating expenses	(32,542,792)	(54)	(29,756,645)	(57)		9
Net Income Before Tax from Continuing Operations	21,492,185	36	21,361,039	42		1
Income tax expenses (Note 6(AB))	(2,707,279)	(5)	(2,805,040)	(5)		(3)
Net Income	18,784,906	31	18,555,999	37		1
Other comprehensive income:						
Exchange differences of overseas subsidiaries' financial reports translation	(935,092)	(2)	(1,271,123)	(2)		(26)
Unrealized valuation gains on available-for-sale financial assets	6,309	-	1,608,631	3		(100)
Actuarial gains ( losses) of Defined Benefit Plan	38,632	-	(558,803)	(1)		107
Proportionate share of other comprehensive income from associates or joint ventures under equity method	(440,660)	-	67,239	-		(755)
Income tax related to components of other comprehensive income (Note 6(AB))	206,779	-	207,138	-	-	
Other comprehensive income (net amount after tax)	(1,124,032)	(2)	53,082	-		(2,218)
Total Comprehensive Income	\$ 17,660,874	29	18,609,081	37		(5)
Earnings per share (EPS) (Note 6(AG))	\$ 2.39		2.36			

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

**CTBC BANK CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For The Year Ended December 31, 2013 And 2012**  
**(Expressed In Thousands of New Taiwan Dollars)**

	Capital stock	Retained earnings				Other items in stockholders' equity		
	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	of overseas subsidiaries' financial reports translation	Unrealized (losses) gains on available-for-sale financial assets	Total equity
Balance—January 1, 2012	\$ 75,371,376	16,892,141	29,082,575	205,584	14,088,454	(2,238,369)	(1,770,221)	131,631,540
Net income	-	-	-	-	18,555,999	-	-	18,555,999
Other comprehensive income	-	-	-	-	(463,806)	-	-	53,082
Total comprehensive income	-	-	-	-	18,092,193	(1,158,982)	1,675,870	18,609,081
Earnings appropriation and distribution: (Note)								
Legal reserve	-	-	5,059,884	-	(5,059,884)	-	-	-
Special reserve	-	-	-	1,770,221	(1,770,221)	-	-	-
Cash dividends—common stock	-	-	-	-	(10,035,699)	-	-	(10,035,699)
Share based payment transactions	-	292,691	-	-	-	-	-	292,691
Recognition of capital surplus from subsidiaries' treasury stock buyback	-	(2,773)	-	-	-	-	-	(2,773)
Balance—December 31, 2012	75,371,376	17,182,059	34,142,459	1,975,805	15,314,843	(3,397,351)	(94,351)	140,494,840
Net income	-	-	-	-	18,784,906	-	-	18,784,906
Other comprehensive income	-	-	-	-	(6,832)	(721,745)	(395,455)	(1,124,032)
Total comprehensive income	-	-	-	-	18,778,074	(721,745)	(395,455)	17,660,874
Earnings appropriation and distribution: (Note)								
Legal reserve	-	-	5,520,133	-	(5,520,133)	-	-	-
Cash dividends—common stock	-	-	-	-	(11,304,952)	-	-	(11,304,952)
Stock dividends—common stock	3,251,521	-	-	-	(3,251,521)	-	-	-
Reversal from special reserve	-	-	-	(1,675,870)	1,675,870	-	-	-
Balance—December 31, 2013	\$ 78,622,897	17,182,059	39,662,592	299,935	15,692,181	(4,119,096)	(489,806)	146,850,762

Note: For the year ended December 31, 2013 and 2012, employee bonuses of \$3,218 and \$6,440 were deducted from the consolidated statements of comprehensive income.

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

**CTBC BANK CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
**For The Year Ended December 31, 2013 And 2012**  
**(Expressed In Thousands of New Taiwan Dollars)**

	<b>For the year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activities:</b>		
Net Income Before Tax	\$ 21,492,185	21,361,039
Adjustments:		
Income and expense items with no effect on cash flows		
Depreciation expenses	1,060,643	1,164,743
Amortization expenses	565,308	568,943
Provision for bad debt expenses	5,999,304	345,294
Net gains on financial assets or liabilities measured at fair value through profit or loss	(706,166)	(513,381)
Interest expenses	13,624,343	12,983,418
Interest income	(38,154,954)	(36,914,297)
Dividends earned	(471,463)	(618,788)
Net changes in guarantee reserve	(7,141)	(18,052)
Net changes in other provisions	(70,006)	(108,944)
Share-based payment transactions	-	292,691
Losses on disposal of foreclosed properties	27,494	1,934
Proportionate share of gains from subsidiaries, associates or joint ventures under equity method	(4,120,574)	(1,256,841)
Losses (gains) on disposal and retirement of premises and equipment	31,219	(25)
Losses on disposal of intangible assets	2,598	71
Gains on disposal of investments carried at cost	(11,086)	(11,178)
Impairment loss on non-financial assets	21,722	645
Other adjustments	(173,198)	(225,323)
Subtotal of income and expense items with no effect on cash flows	(22,381,957)	(24,309,090)
Changes in Operating Assets and Liabilities:		
Net Changes in Operating Assets:		
(Increase) decrease in due from Central Bank and call loans to bank	(14,277,054)	22,234,353
Increase in financial assets measured at fair value through profit or loss	(178,765)	(12,358,936)
Decrease in hedging derivative financial assets	667,841	489,818
Increase in receivables	(27,866,833)	(8,544,907)
Increase in loans	(137,443,313)	(69,258,833)
Decrease in available-for-sale financial assets	13,224,782	13,711,131
Decrease in held-to-maturity financial assets	9,500,680	23,866,243
Decrease in other financial assets	720,487	3,646,501
Net Changes in Operating Assets	(155,652,175)	(26,214,630)
Net Changes in Operating Liabilities:		
Increase (decrease) in deposits from Central Bank and other banks	17,917,046	(19,483,447)
Increase (decrease) in financial liabilities measured at fair value through profit or loss	2,673,695	(1,897,593)
Increase (decrease) in hedging derivative financial liabilities	220,153	(13,617)
(Decrease) increase in payables	(10,952,313)	4,144,552
Increase in deposits and remittances	192,840,006	68,364,421
(Decrease) increase in other financial liabilities	(7,156,394)	3,659,760
(Decrease) increase in employee benefits provision	(203,130)	423,643
Net Changes in Operating Liabilities	195,339,063	55,197,719
Net Changes in Operating Assets and Liabilities	39,686,888	28,983,089
Sum of Adjustments	17,304,931	4,673,999
Cash Provided by Operating Activities	38,797,116	26,035,038
Interest received	38,247,791	36,957,761
Dividends received	530,280	671,148
Interest paid	(13,753,926)	(12,760,774)
Income tax paid	(2,797,249)	(2,743,945)
Net Cash Provided by Operating Activities	61,024,012	48,159,228

**CTBC BANK CO., LTD.**  
**STATEMENTS OF CASH FLOWS(CONT'D)**  
**For The Year Ended December 31, 2013 And 2012**  
**(Expressed In Thousands of New Taiwan Dollars)**

	<b>For the year ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Investing Activities:</b>		
Disposal of financial assets carried at cost	\$ -	52,021
Return of capital from financial assets carried at cost	113,952	-
Purchase of financial assets under equity method	-	(291,950)
Purchase of premises and equipment	(6,708,805)	(4,686,809)
Disposal of premises and equipment	4,867	345,457
Purchase of intangible assets	(264,105)	(293,816)
Disposal of foreclosed properties	295,269	95,171
Decrease in receivables	773,591	752,098
Decrease (increase) in other assets	1,934,829	(1,002,758)
<b>Net Cash Used in Investing Activities</b>	<b>(3,850,402)</b>	<b>(5,030,586)</b>
<b>Cash Flows from Financing Activities:</b>		
Increase (decrease) in due to Central Bank and other banks	585,571	(2,009,571)
Issuance of financial debentures	4,947,000	-
Redemption of financial debentures	(450,000)	-
Increase (decrease) in securities sold under repurchase agreements	260,355	(14,481,942)
(Decrease) increase in payables	(90,321)	15,171
(Decrease) increase in other liabilities	(1,227,524)	1,374,280
Cash dividends issuance	(11,304,952)	(10,035,699)
<b>Net Cash Used in Financing Activities</b>	<b>(7,279,871)</b>	<b>(25,137,761)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>49,893,739</b>	<b>17,990,881</b>
<b>Cash and Cash Equivalents, at the Beginning of the Period</b>	<b>96,146,566</b>	<b>78,155,685</b>
<b>Cash and Cash Equivalents, at the End of the Period</b>	<b>\$ 146,040,305</b>	<b>96,146,566</b>
<b>Components of cash and cash equivalents:</b>		
Cash and cash equivalents recognized in the balance sheet	\$ 81,377,414	35,870,710
Due from Central Bank and call loans to bank which meet IAS 7 definition of cash and cash equivalents	64,662,891	60,275,856
<b>Cash and Cash Equivalents, at the End of the Period</b>	<b>\$ 146,040,305</b>	<b>96,146,566</b>



