# Cathay United Bank and Its Subsidiaries
# Consolidated Financial Statements
# For The Years Ended
# December 31, 2012 and 2011
# With Independent Auditors' Report

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the "Regulations Governing the Preparation of Financial Reports by Public Banks" and related regulations by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, Republic of China. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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English Translation of Report Originally Issued in Chinese

## Independent Auditors' Report

The Board of Directors
Cathay United Bank

We have audited the accompanying consolidated balance sheets of Cathay United Bank (the "Bank") and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2012 and 2011. 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 auditing standards generally accepted in the Republic of China ("ROC"). 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, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for the years then ended in conformity with requirements of the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the "Regulations Governing the Preparation of Financial Reports by Securities Firms" and accounting principles generally accepted in the ROC.

As described in Note 3 to the financial statements, effective from January 1, 2011, the Bank and its subsidiaries adopted the third revision of the ROC. Statement of Financial Accounting Standards ("SFAS") No.34 "Financial Instruments: Recognition and Measurement", and the newly issued SFAS NO.41, "Operating Segments".

Ernst & Young

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
March 15, 2013.

Notice to Readers
The accompanying consolidated financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the ROC and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the ROC.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated balance sheets

December 31, 2012 and 2011

(Expressed in thousands of dollars)

| | | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|---|
| ASSETS | Notes | NT$ | US$ | NT$ | US$ |
| Cash and cash equivalents | IV and V | $34,974,286 | $1,203,934 | $30,125,121 | $995,214 |
| Due from the Central Bank and call loans to banks | IV and V | 109,003,762 | 3,752,281 | 100,101,541 | 3,306,955 |
| Financial assets at fair value through profit or loss | II, IV and V | 67,937,886 | 2,338,654 | 21,914,109 | 723,955 |
| Securities purchased under agreements to resell | II | - | - | 2,308,788 | 76,273 |
| Receivables, net | II, III, IV and V | 50,837,969 | 1,750,016 | 46,032,043 | 1,520,715 |
| Discounts and loans, net | II, III, IV and V | 1,003,183,193 | 34,532,984 | 1,001,925,794 | 33,099,630 |
| Available-for-sale financial assets, net | II and IV | 58,449,929 | 2,012,046 | 47,839,435 | 1,580,424 |
| Held-to-maturity financial assets, net | II and IV | 21,668,974 | 745,920 | 19,346,851 | 639,143 |
| Investments accounted for using equity method, net | II, IV and V | 1,565,227 | 53,881 | 1,547,828 | 51,134 |
| Other financial assets, net | II and IV | 4,526,352 | 155,812 | 4,840,800 | 159,921 |
| Investments in debt securities with no active market, net | II and IV | 424,043,663 | 14,597,028 | 425,140,266 | 14,044,938 |
| Premises and equipment, net | II, IV, V and VII | 24,366,902 | 838,792 | 24,925,909 | 823,452 |
| Intangible assets, net | II and IV | 7,829,641 | 269,523 | 7,648,038 | 252,661 |
| Other assets, net | II, IV and V | 6,254,794 | 215,311 | 4,428,749 | 146,308 |
| TOTAL ASSETS | | $1,814,642,578 | $62,466,182 | $1,738,125,272 | $57,420,723 |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated balance sheets (continued)

December 31, 2012 and 2011

(Expressed in thousands of dollars)

| | | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | Notes | NT$ | US$ | NT$ | US$ |
| LIABILITIES | | | | | |
| Due to the Central Bank and call loans from banks | IV and V | $56,931,773 | $1,959,786 | $62,275,073 | $2,057,320 |
| Funds borrowed from the Central Bank and other banks | | 1,456,800 | 50,148 | 1,514,500 | 50,033 |
| Financial liabilities at fair value through profit or loss | II, IV and V | 4,967,738 | 171,006 | 4,835,152 | 159,734 |
| Securities sold under agreements to repurchase | II, IV and V | 20,369,249 | 701,179 | 13,546,462 | 447,521 |
| Payables | IV and V | 21,342,714 | 734,689 | 21,149,593 | 698,698 |
| Deposits and remittances | IV and V | 1,539,774,066 | 53,004,271 | 1,484,029,187 | 49,026,402 |
| Financial debentures payable | IV and X | 42,518,631 | 1,463,636 | 36,023,825 | 1,190,083 |
| Other financial liabilities | II and IV | 17,426,191 | 599,869 | 10,611,073 | 350,548 |
| Other liabilities | II , IV and V | 3,843,024 | 132,290 | 2,813,133 | 92,935 |
| TOTAL LIABILITIES | | 1,708,630,186 | 58,816,874 | 1,636,797,998 | 54,073,274 |
| | | | | | |
| SHAREHOLDERS' EQUITY | | | | | |
| EQUITY ATTRIBUTE TO EQUITY HOLDERS OF PARENT | | | | | |
| Capital stock | IV | 52,277,026 | 1,799,554 | 52,277,026 | 1,727,025 |
| Capital reserves | IV | 15,213,292 | 523,693 | 15,213,292 | 502,586 |
| Retained earnings | IV | | | | |
| Legal reserves | | 22,360,652 | 769,730 | 19,009,053 | 627,983 |
| Special reserves | II, III and IV | 271,009 | 9,329 | 271,009 | 8,953 |
| Undistributed earnings | | 13,068,125 | 449,849 | 11,171,996 | 369,078 |
| Foreign currency translation adjustment | II | (601,241) | (20,697) | (51,219) | (1,692) |
| Unrealized gains or losses on financial instruments | II | 1,411,424 | 48,586 | 1,089,282 | 35,986 |
| Net loss not recognized as net pension costs | II and IV | (954,909) | (32,871) | (802,336) | (26,506) |
| Subtotal | | 103,045,378 | 3,547,173 | 98,178,103 | 3,243,413 |
| MINORITY INTERESTS | | 2,967,014 | 102,135 | 3,149,171 | 104,036 |
| TOTAL SHAREHOLDERS' EQUITY | | 106,012,392 | 3,649,308 | 101,327,274 | 3,347,449 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | $1,814,642,578 | $62,466,182 | $1,738,125,272 | $57,420,723 |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of income

For the years ended December 31, 2012 and 2011

(Expressed in thousands of dollars, except per share information)

| ITEMS | Notes | January 1 - December 31, 2012 NT$ | January 1 - December 31, 2012 US$ | January 1 - December 31, 2011 NT$ | January 1 - December 31, 2011 US$ |
|---|---|---|---|---|---|
| INTEREST INCOME | II and V | $34,157,232 | $1,175,808 | $30,474,053 | $1,006,741 |
| INTEREST EXPENSE | V | (13,004,174) | (447,648) | (11,755,192) | (388,345) |
| NET INTEREST INCOME | | 21,153,058 | 728,160 | 18,718,861 | 618,396 |
| NONINTEREST INCOME | | | | | |
| Net fee income | II and V | 7,348,171 | 252,949 | 6,825,223 | 225,478 |
| Gain on financial assets and liabilities at fair value through profit or loss | II, IV and V | 1,134,791 | 39,064 | 1,217,803 | 40,231 |
| Realized gain on available-for-sale financial assets | II | 1,279,108 | 44,031 | 1,748,812 | 57,774 |
| Realized loss on financial assets in held-to-maturity | II | - | - | (1,511) | (50) |
| Investment income recognized by the equity method | II and IV | 47,194 | 1,624 | 50,572 | 1,671 |
| Gain on foreign currency exchange, net | II | 1,100,973 | 37,900 | 869,312 | 28,719 |
| Impairment loss of assets | II | (151,084) | (5,201) | (111,846) | (3,695) |
| Gain on financial assets carried at cost | | 155,047 | 5,337 | 138,227 | 4,567 |
| Gain on investment in debt securities with no active market | | 25,250 | 869 | 14,936 | 493 |
| Gain on disposal of properties | V | 1,719,154 | 59,179 | 181,341 | 5,991 |
| Others | II, III, IV and V | 765,739 | 26,360 | 862,589 | 28,496 |
| NET NONINTEREST INCOME | | 13,424,343 | 462,112 | 11,795,458 | 389,675 |
| NET OPERATING INCOME | | 34,577,401 | 1,190,272 | 30,514,319 | 1,008,071 |
| BAD DEBT EXPENSE | II, III and IV | (2,126,095) | (73,187) | (627,177) | (20,719) |
| OPERATING EXPENSES | | | | | |
| Personnel | II, IV and V | (8,679,245) | (298,769) | (8,221,134) | (271,593) |
| Depreciation and amortization | II and IV | (1,157,897) | (39,859) | (1,248,954) | (41,260) |
| Other general and administrative expenses | V | (7,744,226) | (266,583) | (7,244,961) | (239,345) |
| TOTAL OPERATING EXPENSES | | (17,581,368) | (605,211) | (16,715,049) | (552,198) |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | | 14,869,938 | 511,874 | 13,172,093 | 435,154 |
| INCOME TAX EXPENSE | II and IV | (1,601,977) | (55,146) | (1,743,672) | (57,604) |
| NET INCOME | | $13,267,961 | $456,728 | $11,428,421 | $377,550 |
| ATTRIBUTABLE TO: | | | | | |
| EQUITY HOLDERS OF THE PARENT | | $13,068,125 | $449,849 | $11,139,739 | $368,013 |
| MINORITY INTEREST | | 199,836 | 6,879 | 288,682 | 9,537 |
| NET INCOME | | $13,267,961 | $456,728 | $11,428,421 | $377,550 |
| BASIC EARNINGS PER SHARE (IN DOLLARS) | IV | | | | |
| EQUITY HOLDERS OF THE PARENT | | $2.50 | $0.086 | $2.13 | $0.070 |
| MINORITY INTEREST | | 0.04 | 0.001 | 0.06 | 0.002 |
| NET INCOME | | $2.54 | $0.087 | $2.19 | $0.072 |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of changes in shareholders' equity

For the years ended December 31, 2012 and 2011

(Expressed in thousands of dollars)

| | | | | | | Retained earnings | | | | | | Equity adjustment | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital stock | | Capital reserves | | Legal reserves | | Special reserves | | Undistributed earnings | | Foreign currency translation adjustment | | Unrealized gains or losses on financial instruments | | Net loss not recognized as net pension costs | | Equity holders of the parent | | Minority interest | | Total | |
| ITEMS | Notes | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Balance, January 1, 2011 | | $52,277,026 | $1,727,025 | $15,213,292 | $502,586 | $15,609,529 | $515,676 | $- | $- | $11,254,310 | $371,797 | $(428,077) | $(14,142) | $1,908,179 | $63,039 | $(603,625) | $(19,941) | $95,230,634 | $3,146,040 | $2,743,073 | $90,620 | $97,973,707 | $3,236,660 |
| Reclassification of reserves for trading losses as special reserves | II, III and IV | - | - | - | - | - | - | 268,791 | 8,880 | - | - | - | - | - | - | - | - | 268,791 | 8,880 | - | - | 268,791 | 8,880 |
| Appropriation and distribution of 2010 earnings (Note): | IV | | | | | | | | | | | | | | | | | | | | | | |
| Legal reserves | | - | - | - | - | 3,399,524 | 112,307 | - | - | (3,399,524) | (112,307) | - | - | - | - | - | - | - | - | - | - | - | - |
| Cash dividends | | - | - | - | - | - | - | - | - | (7,822,529) | (258,425) | - | - | - | - | - | - | (7,822,529) | (258,425) | - | - | (7,822,529) | (258,425) |
| Net income for the years ended December 31, 2011 | | - | - | - | - | - | - | - | - | 11,139,739 | 368,013 | - | - | - | - | - | - | 11,139,739 | 368,013 | 288,682 | 9,537 | 11,428,421 | 377,550 |
| Foreign currency translation adjustment | II | - | - | - | - | - | - | - | - | - | - | 376,858 | 12,450 | - | - | - | - | 376,858 | 12,450 | - | - | 376,858 | 12,450 |
| Adjustment for changes in shareholders' equities of equity-accounted investee | II | - | - | - | - | - | - | 2,218 | 73 | - | - | - | - | (5,077) | (168) | (1,177) | (39) | (4,036) | (134) | - | - | (4,036) | (134) |
| Unrealized losses on available-for-sale financial assets | II | - | - | - | - | - | - | - | - | - | - | - | - | (813,820) | (26,885) | - | - | (813,820) | (26,885) | - | - | (813,820) | (26,885) |
| Adjustment for net loss not recognized as pension costs | II | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (197,534) | (6,526) | (197,534) | (6,526) | - | - | (197,534) | (6,526) |
| Minority interest | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 117,416 | 3,879 | 117,416 | 3,879 |
| Balance, December 31, 2011 | | $52,277,026 | $1,727,025 | $15,213,292 | $502,586 | $19,009,053 | $627,983 | $271,009 | $8,953 | $11,171,996 | $369,078 | $(51,219) | $(1,692) | $1,089,282 | $35,986 | $(802,336) | $(26,506) | $98,178,103 | $3,243,413 | $3,149,171 | $104,036 | $101,327,274 | $3,347,449 |
| Balance, January 1, 2012 | | $52,277,026 | $1,799,554 | $15,213,292 | $523,693 | $19,009,053 | $654,357 | $271,009 | $9,329 | $11,171,996 | $384,578 | $(51,219) | $(1,763) | $1,089,282 | $37,496 | $(802,336) | $(27,619) | $98,178,103 | $3,379,625 | $3,149,171 | $108,405 | $101,327,274 | $3,488,030 |
| Appropriation and distribution of 2011 earnings (Note): | IV | | | | | | | | | | | | | | | | | | | | | | |
| Legal reserves | | - | - | - | - | 3,351,599 | 115,373 | - | - | (3,351,599) | (115,373) | - | - | - | - | - | - | - | - | - | - | - | - |
| Cash dividends | | - | - | - | - | - | - | - | - | (7,820,397) | (269,205) | - | - | - | - | - | - | (7,820,397) | (269,205) | - | - | (7,820,397) | (269,205) |
| Net income for the years ended December 31, 2012 | | - | - | - | - | - | - | - | - | 13,068,125 | 449,849 | - | - | - | - | - | - | 13,068,125 | 449,849 | 199,836 | 6,879 | 13,267,961 | 456,728 |
| Foreign currency translation adjustment | II | - | - | - | - | - | - | - | - | - | - | (550,022) | (18,934) | - | - | - | - | (550,022) | (18,934) | - | - | (550,022) | (18,934) |
| Adjustment for changes in shareholders' equities of equity-accounted investee | II | - | - | - | - | - | - | - | - | - | - | - | - | (2,016) | (69) | (45) | (2) | (2,061) | (71) | - | - | (2,061) | (71) |
| Unrealized losses on available-for-sale financial assets | II | - | - | - | - | - | - | - | - | - | - | - | - | 324,158 | 11,159 | - | - | 324,158 | 11,159 | - | - | 324,158 | 11,159 |
| Adjustment for net loss not recognized as pension costs | II | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (152,528) | (5,250) | (152,528) | (5,250) | - | - | (152,528) | (5,250) |
| Minority interest | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (381,993) | (13,149) | (381,993) | (13,149) |
| Balance, December 31, 2012 | | $52,277,026 | $1,799,554 | $15,213,292 | $523,693 | $22,360,652 | $769,730 | $271,009 | $9,329 | $13,068,125 | $449,849 | $(601,241) | $(20,697) | $1,411,424 | $48,586 | $(954,909) | $(32,871) | $103,045,378 | $3,547,173 | $2,967,014 | $102,135 | $106,012,392 | $3,649,308 |

Note： Bouns to employees NT$1,500 thousands deducted from Income Statement.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2012 and 2011

(Expressed in thousands of dollars)

| ITEMS | Notes | January 1 - December 31, 2012 NT$ | January 1 - December 31, 2012 US$ | January 1 - December 31, 2011 NT$ | January 1 - December 31, 2011 US$ |
|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net income | | $13,267,961 | $456,728 | $11,428,421 | $377,550 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | II | 1,157,897 | 39,859 | 1,248,954 | 41,260 |
| The difference between investment income recognized by the equity method and the cash dividends received | II | (18,707) | (644) | 15,908 | 526 |
| Bad debt expense | II, III and IV | 2,126,095 | 73,187 | 627,177 | 20,719 |
| Gain on disposal of premises, equipment and foreclosed properties | II | (1,717,569) | (59,124) | (188,421) | (6,225) |
| Impairment loss of assets | II | 151,084 | 5,201 | 111,846 | 3,695 |
| Effects of exchange rate changes | | 72,425 | 2,493 | (83,397) | (2,755) |
| (Increase) decrease in operating assets | | | | | |
| (Increase) decrease in receivables | | (3,766,897) | (129,669) | 11,982,322 | 395,848 |
| Increase in deferred income tax assets | | (498,409) | (17,157) | (7,703) | (254) |
| (Increase) decrease in financial assets at fair value through profit or loss | | (46,028,618) | (1,584,462) | 44,218,822 | 1,460,813 |
| (Increase) decrease in other assets | | (1,535,324) | (52,851) | 178,481 | 5,896 |
| Increase (decrease) in operating liabilities | | | | | |
| Decrease in payables | | (261,296) | (8,995) | (14,355,351) | (474,243) |
| Decrease in deferred income tax liabilities | | (18,551) | (638) | (50,498) | (1,668) |
| Increase (decrease) in financial liabilities at fair value through profit or loss | | 132,586 | 4,564 | (19,198,958) | (634,257) |
| Increase (decrease) in tax payables | | 30,485 | 1,049 | (95,536) | (3,156) |
| Increase in other liabilities | | 700,502 | 24,114 | 91,525 | 3,023 |
| Net cash provided by (used in) operating activities | | (36,206,336) | (1,246,345) | 35,923,592 | 1,186,772 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Increase in discounts and loans | | (4,183,298) | (144,003) | (101,101,994) | (3,340,006) |
| (Increase) decrease in due from the Central Bank and call loans to banks | | (6,773,000) | (233,149) | 8,522,232 | 281,541 |
| Decrease in securities purchased under agreements to resell | | 2,308,788 | 79,476 | 16,617,605 | 548,979 |
| (Increase) decrease in available-for-sale financial assets | | (10,330,544) | (355,612) | 27,327,819 | 902,802 |
| Increase in held-to-maturity financial assets | | (2,366,725) | (81,471) | (13,191,103) | (435,781) |
| Increase in investments accounted for using equity method | | (654,930) | (22,545) | - | - |
| Capital return due to capital decrease in equity-accounted investee | | 1,990 | 69 | 10,000 | 330 |
| Proceeds from disposal of premises, equipment and foreclosed properties | | 2,579,739 | 88,803 | 469,771 | 15,519 |
| Acquisition of premises, equipment and foreclosed properties | | (560,609) | (19,298) | (502,378) | (16,596) |
| Acquisition of intangible assets | | (51,004) | (1,756) | (137,160) | (4,531) |
| (Increase) decrease in investments in debt securities with no active market | | 1,006,304 | 34,640 | (122,363,834) | (4,042,413) |
| (Increase) decrease in other financial assets | | 254,596 | 8,764 | (206,734) | (6,830) |
| (Increase) decrease in other assets | | (304,585) | (10,485) | 67,291 | 2,223 |
| Net cash used in investing activities | | (19,073,278) | (656,567) | (184,488,485) | (6,094,763) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Increase (decrease) in due to the Central Bank and call loans from banks | | (7,092,214) | (244,138) | 14,802,648 | 489,020 |
| Increase (decrease) in securities sold under agreements to repurchase | | 6,822,787 | 234,863 | (8,133,095) | (268,685) |
| Increase in deposits and remittances | | 54,529,724 | 1,877,099 | 141,220,507 | 4,665,362 |
| Increase (decrease) in funds borrowed from the Central Bank and other banks | | (57,700) | (1,986) | 58,000 | 1,916 |
| Increase in financial debentures payable | | 6,561,927 | 225,884 | 12,256,715 | 404,913 |
| Increase in other financial liabilities | | 6,815,118 | 234,600 | 2,763,454 | 91,293 |
| Increase (decrease) in other liabilities | | 232,098 | 7,989 | (504,815) | (16,677) |
| Distribution of cash dividends | IV | (7,820,397) | (269,205) | (7,822,529) | (258,425) |
| Net cash provided by financing activities | | 59,991,343 | 2,065,106 | 154,640,885 | 5,108,717 |
| EFFECTS OF FOREIGN EXCHANGE RATE CHANGES | | (549,925) | (18,930) | 377,760 | 12,480 |
| NET EFFECTS CHANGES IN CONSOLIDATED INDIVIDUAL | | 687,361 | 23,661 | - | - |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 4,849,165 | 166,925 | 6,453,752 | 213,206 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | 30,125,121 | 1,037,009 | 23,671,369 | 782,008 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | $34,974,286 | $1,203,934 | $30,125,121 | $995,214 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION: | | | | | |
| Interest expense paid | | $12,689,417 | $436,813 | $10,782,125 | $356,198 |
| Income tax paid | | $606,145 | $20,866 | $592,974 | $19,589 |

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay United Bank and Its Subsidiaries
Notes to consolidated financial statements
For the years ended December 31, 2012 and 2011
(Amounts in thousands except for share and per share data and unless otherwise stated)

## I. Business

Cathay United Bank (the "Bank"), originally named United World Chinese Commercial Bank ("UWCCB"), was enfranchised by the government of the Republic of China ("ROC") in January 1975. The Bank started its operations on May 20, 1975 and is engaged in the following operations: (1)all commercial banking operations authorized by the ROC Banking Law ("Banking Law"); (2)international banking business and related operations; (3)trust business; (4)off-shore banking business; and (5)other financial operations related to the promotion of investments by overseas Chinese.

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

(1) Checking, demand and time deposits;
(2) Short, medium, and long-term loans;
(3) Note discounting;
(4) Investment in securities;
(5) Domestic foreign exchange business;
(6) Banker's acceptances;
(7) Issuance of domestic letters of credit;
(8) Endorsement and issuance of corporate bonds;
(9) Domestic endorsement guarantees business;
(10) Collection and payment agency;
(11) Agency for government bonds, treasury bills, corporate bonds and stocks;
(12) Underwriting and proprietary trading of securities;
(13) Custody and warehouse services;
(14) Renting of safe-deposit boxes;
(15) All businesses related to as specified in the license or other agency services as approved by the authority;
(16) Credit card-related products;
(17) Agency for sale of gold nuggets, gold coins and silver coins;
(18) Foreign exchange business in connection with exports and imports, fund remittance and repatriation, foreign currency deposits and loans; guarantees for secured repayment on exports and imports;

(19) Agency for issuance, transfer and registration of securities and distribution of interest and dividends services;
(20) Consulting services in connection with the issuance and offering of securities;
(21) Custody for funds;
(22) Discretionary trust funds by means of a trust;
(23) Cash purchase and sales in foreign currencies and agency for traveler's check;
(24) Derivative financial business as approved by the authority;
(25) Trust and fiduciary services;
(26) Non-discretionary trust funds for investment in foreign marketable securities;
(27) Proprietary trading of government bonds;
(28) Agency transactions, proprietary trading, certifying and underwriting of short-term bills;
(29) Financial advisory services on corporate banking; and
(30) Other business as approved by the authority.

The Bank's stock was traded on the Taiwan Stock Exchange (the "TSE") until December 18, 2002. On December 18, 2002, the Bank became a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd. ("Cathay Financial Holdings") through a conversion transaction and desisted from the TSE. Under the Financial Institution Merger Law, the Bank engaged in a merger with the former Cathay United Bank, a wholly-owned subsidiary of Cathay Financial Holdings. The record date for such merger was October 27, 2003 and UWCCB survived and was renamed Cathay United Bank.

The Bank merged with Lucky Bank on January 1, 2007. Under this merger, on which the Bank was the surviving entity and Lucky Bank was the merged Bank. In addition, the Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation ("CUTIC") on December 29, 2007.

As of December 31, 2012 and 2011, the Bank and its subsidiaries employed 7,669 and 7,124 employees, respectively.

## II. Summary of significant accounting policies

The consolidated financial statements were prepared in conformity with the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the "Regulations Governing the Preparation of Financial Reports by Securities Firms" and accounting principles generally accepted in the ROC.

The significant accounting policies are summarized as follows:

1. Principles of consolidation

(1) The Bank is required to include the accounts of all subsidiaries, which is majority owned or controlled in its annual consolidated financial statements.

As of and for the years ended December 31, 2012 and 2011, the consolidated financial statements included:

| Investors | Investees | Business activity | 2012.12.31 Ownership (%) | 2011.12.31 Ownership (%) | Incorporated date |
|---|---|---|---|---|---|
| The Bank | Indovina Bank Limited (“Indovina Bank”) | Wholesale banking | 50 | 50 | Indovina Bank was incorporated in Vietnam on October 29, 1992. |
| The Bank | Singapore Banking Corporation (“SBC Bank”) | Wholesale banking | 70 | - | SBC Bank was incorporated in Cambodia on July 5, 1993. |

As of and for the years ended December 31, 2012 and 2011, respectively, the consolidated financial statements excluded following subsidiaries because its total assets and operating revenues were immaterial impact to the Bank.

| Investors | Investees | Business activity | 2012.12.31 Ownership (%) | 2011.12.31 Ownership (%) | Incorporated date |
|---|---|---|---|---|---|
| The Bank | Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”) | Life insurance agent | - | - | Cathay Life Insurance Agent was incorporated on March 23, 2000, dissolved on March 1, 2011, and completed its liquidation process on June 14, 2012. |
| The Bank | Seaward Card Co., Ltd. (“Seaward Card”) | Dispatched work | 100 | 100 | Seaward Card was incorporated on April 9, 1999. |

(2) All significant inter-company transactions and balances have been eliminated for consolidation purposes.

2. Basis of preparation of consolidated financial statements

(1) The accompanying financial statements of the Bank include the accounts of the head office, domestic and foreign branches. All significant inter-branch and inter-office accounts and transactions have been eliminated when the financial statements are prepared.

(2) Financial statements of foreign subsidiaries are converted into New Taiwan dollars ("NT dollars" or "NT$") as follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate prevailing on the balance sheet date. Shareholders' equity items are converted on the historical rate basis except for the opening balance of retained earnings, which is posted directly from the balance of the last year. Income statement items are converted by the weighted-average exchange rate for the period. Differences arising from above conversion are reported as "Foreign currency translation adjustment" under shareholders' equity.

3. Foreign-currency transaction and translation

Foreign-currency transactions of the head office, domestic branches and subsidiaries are recorded of each entity based on the functional currency in which they are transacted. At the end of each month, foreign currencies denominated assets and liabilities are converted into New Taiwan dollars ("NT dollars" or "NT$") at the applicable exchange rates as at the balance sheet date. Foreign currency income and expenses are converted into NT dollars at the exchange rates in effect as at the time of each transaction. The resulting realized gains or losses are included in income.

Foreign currency monetary assets or liabilities shall be translated using the applicable rate at each balance sheet date and exchange differences shall be recognized in profit or loss in current income. Non-monetary assets or liabilities 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 .When a gain or loss on a non-monetary asset or liability is recognized directly in equity, any exchange component of that gain or loss shall be recognized in equity. When a gain or loss on a non-monetary is recognized, any exchange component of that gain or loss shall be recognized. Non-monetary assets or liabilities 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.

Assets and liabilities of foreign branches, which are denominated in their respective foreign currencies, are converted into NT dollars using the method described in the preceding paragraph. Foreign currency denominated income and expenses of such branches are translated at the applicable exchange rate of the last day in every month. Gains or losses resulted from the translation are treated as "foreign currency translation adjustment" in the shareholders' equity.

The effect of difference in exchange rates for equity securities accounted for by the equity method is recorded as "foreign currency translation adjustment" in the shareholders' equity.

4. Financial assets and financial liabilities

The Bank and its subsidiaries adopted the ROC Statements of Financial Accounting Standards ("ROC SFAS") No. 34 and "Regulations Governing the Preparation of Financial Reports by Public Banks" to classify its financial assets as either financial assets at fair value through profit or loss, held-to-maturity financial assets, investment in debt securities with no active market, available-for-sale financial assets, financial assets carried at cost, derivative financial assets for hedging and loans and receivables (loans and receivables originated by the enterprise are included in the ROC Statements of Financial Accounting Standards ("ROC SFAS") NO. 34 since January 1, 2011) where appropriate. Financial liabilities are classified as either financial liabilities at fair value through profit or loss and financial liabilities carried at amortized cost. When financial assets or liabilities are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Some regular way purchases and sales of financial assets, such as stocks and mutual funds, are recognized on the trade date (i.e. the date that the Bank and its subsidiaries commit to purchase or sell the asset) and others are recognized on the settlement date.

(1) Financial assets or liabilities at fair value through profit or loss

Financial assets or liabilities held for trading and designated by the Bank and its subsidiaries at fair value through profit or loss are classified as financial assets or liabilities at fair value through profit or loss. Subsequently, these investments are reviewed on a monthly basis and changes in fair value are recognized in income.

(2) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable collections and fixed maturity which management has the intent and ability to hold to maturity are classified as held-to-maturity financial assets and reported at amortized cost. Such gains and losses are recognized when the investments are derecognized or impaired, as well as through the amortization process.

(3) Investments in debt securities with no active market

Investment in debt securities with no active market are non-derivative financial assets with fixed or determinable collections that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized when these investments are derecognized or impaired, as well as through the amortization process.

(4) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or not classified in any of the three preceding categories.

Available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity except for impairment loss and foreign currency exchange related gains or losses, until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is transferred to income statement.

However, any difference between the initial amount and the maturity amount of available-for-sale financial assets shall be amortized by effect interest method as interest income or expense over the relevant periods.

(5) Financial assets carried at cost

Investments in equity instruments without quoted market price and derivative instruments linked to or settled by delivery of such unquoted equity investments shall be measured at cost.

(6) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other then:

① those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading;

② those that the entity upon initial recognition designates as at fair value through profit or loss;

③ those that the entity upon initial recognition designates as available-for-sale; or

④ those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Gains and losses are recognized when the investments are derecognized or impaired, as well as through the amortization process.

(7) Financial liabilities

After initial recognition, all financial liabilities are measured at amortized cost, except for financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging purpose. Such liabilities are measured at fair value.

The fair value of investments is determined by reference to the close price at the balance sheet date for listed shares and derivatives, the net asset value for open-ended funds, and the closing or quoted price at the balance sheet date for bond and valuation techniques for debt securities with no active market, hybrid instruments and derivative instruments.

This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

5. Derivative financial instruments

The Bank and its subsidiaries entered into various derivative contracts, including forward currency contracts, cross-currency swaps, options, futures and interest rate swaps. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are taken directly to income if a derivative instrument in a fair value hedge is terminated or the hedge designation removed for the period.

6. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in which the transferor surrenders control over those financial assets, and shall be accounted for as a sale.

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale, the Bank and its subsidiaries accounted for the transfer as a borrowing with collateral. The right to repurchase the assets is not separately recognized as a derivative.

Financial liabilities

A financial liability or a portion of a financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender with substantially different terms, or the terms of an existing liability are substantially modified, and the new liability is assumed, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in income.

7. Bills and bonds under repurchase or resell agreements

Bills and bonds under repurchase or resell agreements are accounted for under the financing method. Bills and bonds sold under repurchase agreements are presented as "Securities sold under agreements to repurchase" at the sale date. Bills and bonds invested under resell agreements are presented as "Securities purchased under agreements to resell" at the purchase date. The difference between the purchase or the selling price and the contracted resell or repurchase price is recorded as interest income or interest expense, respectively.

8. Impairment of financial assets

The Bank and its subsidiaries assess at each balance sheet date whether a financial asset or group of financial assets is impaired using following different methodologies depending on the classification:

Financial assets carried at amortized cost

If there is an objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the income statement. Once a financial assets or a group of similar financial asset has been written down as a result of an impairment loss, interest income is there after recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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. Any subsequent reversal of an impairment loss is recognized in the income statements, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets carried at cost

If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a instrument with similar characteristics. Such impairment losses shall not be reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in income, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement s; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

Loans and receivables

Since January 1, 2011, the Bank and its subsidiaries first assess whether objective evidence of impairment exists individually for loans and receivables that are individually significant. If there is objective evidence that an impairment loss on individual loan or receivable has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a loan or receivable that is not individually significant has been incurred, the Bank and its subsidiaries shall include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Similarly, for loans and receivables with no objective evidence that an impairment loss has been incurred, those assets shall be collectively assessed for impairment. Allowance for doubtful accounts are provided between the amount calculated by adopting the third revision of the SFAS No. 34 "Financial Instruments: Recognition and Measurement" and the lowest amount that should be provided by the amended "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing / Non-accrual Loans" of the authority for which is higher. Since the maturity date of the non-performing loans or non-accrual loans and the efforts of collection have failed. The non-performing loans and non-accrual loans will be write-off after the resolution was approved by the board of directors.

9. Hedge accounting

The Bank uses its derivatives designated as hedging for accounting purposes as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

(1) Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;

(2) Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction;

(3) Hedges of net investments in foreign operations.

A hedge of interest risk of the Bank's subordinated financial debentures is accounted for as a fair value hedge.

The Bank formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various accounting hedges. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value of the hedged items. The Bank assesses on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

For fair value hedges, the carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains or losses from both are taken to the income statement.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to the income statement. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

The Bank discontinues hedge accounting when it is determined a derivative is not expected to be or has ceased to be highly effective as a hedge, and then reflects changes in fair value in earnings after termination of the hedging relationship.

10. Investment accounted for using equity method

Investments in other companies with voting rights of at least 20%, or less than 20% but the Bank and related parties in the aggregate hold more than 20% of the common stock and have significant influence over the investee are accounted for under the equity method. The difference between investment cost and underlying equity in net assets is amortized in 5 years. However, effective from January 1, 2006, if such a difference is goodwill, then it is not amortized but is reviewed for potential impairment on an annual basis, or if events or circumstances indicate a potential impairment, at the reporting unit level.

If the sum of the amounts assigned to assets acquired and liabilities assumed exceeds the cost of the acquired entity (excess over cost). That excess shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the non-current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

Gain or loss on disposal of long-term equity investment is calculated based on the difference between selling price and carrying amount. Capital surplus arising from long-term equity investment is proportionately recycled to the income statement.

The Bank prepares consolidated financial statements that include the accounts of its majority-owned affiliates in accordance with the ROC SFAS No. 7” Consolidated Financial Statements”.

11. Premises and equipment

(1) Premises and equipment are stated at cost less accumulated depreciation or amortization. Improvements, additions, and major renewals that extend the life of an asset are capitalized while repairs and maintenance are expensed as incurred; relevant promulgated principle should be applied if impairment been found, Upon disposal of premises and equipment, the related cost, accumulated depreciation and accumulated impairment loss are removed from the account. Any gains or losses thereafter are charged to the income statement.

(2) Depreciation is provided by the straight-line method over the following estimated useful lives:

| | | |
|---|---|---|
| Building | 5～60 | years |
| Furniture and fixtures | 3～ 8 | years |
| Transportation equipment | 3～ 8 | years |
| Miscellaneous equipment | 3～15 | years |

When an impairment loss has been recognized, the depreciation of a specified asset should be recalculated base on the adjusted value over the estimated useful lives.

The residual value of a property that is still in use at the end of the original service life is depreciated using the straight-line method over its newly estimated useful lives.

12. Intangible assets and goodwill

(1) Intangible assets

The Bank and its subsidiaries adopted the ROC SFAS No. 37 "Accounting for Intangible Assets". Intangible assets are initially recognized at cost. After the initial recognition, the intangible assets shall be carried at cost less accumulated amortization and accumulated impairment losses if any.

The useful lives of intangible assets of the Bank and its subsidiaries are deemed finite. The amortization amounts of the intangible assets with finite useful lives are allocated on a systematic basis over their useful lives. If there is objective evidence that an impairment loss has been incurred, the impairment testing would be performed.

The category of intangible assets of the Bank and its subsidiaries and the amortization method over the estimated useful lives are as follows:

| Category | Useful lives | Amortization method |
|---|---|---|
| Computer software | 3-8 years | Straight-line method |
| Other intangible assets | 4-8 years | Straight-line method |

(2) Goodwill

Goodwill is recognized when the purchase price exceeds the fair value of identifiable net assets acquired in a business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

13. Land use rights

Indovina Bank's land use rights pertain to pieces of land located in Ha Noi, Binh Duong and Dong Nai. Land use rights are stated at cost less amortization, which are amortized using the straight-line method over the period from the date of having the rights to use the land up to Indovina Bank investment license's expiration date.

14. Foreclosed properties

Foreclosed properties of the Bank represent assets acquired by repossession of collateral for realization and are stated at the lower of cost or net realizable value on the balance sheet date. If there is an objective evidence of impairment, the impairment loss shall be recognized.

15. Asset impairment

The Bank and its subsidiaries assess impairment for all its assets within the scope of ROC SFAS No.35 if impairment indicators were found. The Bank and its subsidiaries shall compare the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of net fair values or usage value.

For recognized impairment losses, the Bank and its subsidiaries shall assess, at each balance sheet date, whether there is any evidence shows that it may no longer exist or decreased. If such evidence been found, the Bank and its subsidiaries shall re-estimate the recoverable amount of the asset. Once the recoverable amount increased, the Bank and its subsidiaries shall reverse the recognized impairment loss to the extent the carrying amount as if no impairment loss had been recognized to against the assets. Impairment loss (reversal) is charged to the income statement.

Goodwill is reviewed for impairment annually by assessing the recoverable amount of the CGU, to which the goodwill relates. Where the recoverable amount of the CGU is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

16. Reserves for possible losses on guarantees

Reserves for possible losses on guarantees of the Bank are provided at the maximum limit allowed by the relevant laws and regulations pertaining to guarantees provided for customs duties, commodity taxes and contracts performance obligations.

17. Reserves for losses on trading securities

Prior to December 31, 2010, pursuant to the "Regulations Governing Securities Firms", a reserve for possible losses on trading securities is provided based on 10% of the gain derived from trading securities each month until such reserve has reached the amount of NT$200 million. The reserve shall not be used except for the purpose of covering the amount of loss in excess of the amount of profit. Since January 1, 2011, pursuant to the related regulations issued by the FSC, the reserves are no longer provided and shall be reclassified to special reserves.

18. Pension plans

The Bank has a pension plan covering all full-time employees (the defined benefit plan). Under the plan, pension benefit payments for each employee are based on the employee's years of service and final average compensation. The Bank has established two employee retirement fund committees to supervise the employees' retirement fund based on the regulations of the employee retirement plan. Contribution to the pension fund is made to the separate accounts of the above two committees monthly. The Bank makes contributions to the pension plan, which is administered and operated by an independent employee retirement fund committee. The pension plan is not reflected in the consolidated financial statements.

The Labor Pension Act of the ROC (the "Act"), which adopts a defined contribution pension plan, is effective since July 1, 2005. In accordance with the Act, employees of the Bank may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Bank shall make monthly contributions to the employees' individual pension accounts on a basis 6% of the employees' monthly wages. Monthly contributions are recognized as pension costs.

The Bank adopted ROC SFAS No. 18, "Accounting for Pensions", which requires the actuarial determination of pension assets or obligations for the defined benefit plan. The unrecognized assets or obligations at transition are amortized by the straight-line method over the employees' average remaining service periods.

19. Recognition of interest income and service fees

Interest income is recognized over the period by applying the interest rate method and measured except for delinquent accounts and troubled accounts whose interest is recognized when received.

Service fees are recognized on an accrual basis.

20. Recognition of dividend

When cash dividends on equity securities are declared from pre-acquisition profits, those dividends are deducted from the cost of the securities, except for cash dividends received from financial assets at fair value through profit or loss which are recognized as investment income.

Cash dividends received from equity securities other than financial assets at fair value through profit or loss are included as a recovery of parts of the cost of the equity securities. Receipts of cash dividends declared after the year of investment are recognized as investment income on the date of ex-dividend or the date of shareholders' meeting; if receipts of accumulated cash dividends exceed the accumulated retained earnings in the year prior to the date of dividend issuance, the excessive parts should be represent a recovery of parts of the cost of the equity securities.

Stock dividends are not recognized as investment income but instead as increases in the number of shares held.

21. Income tax

The Bank and its subsidiaries adopted ROC SFAS No. 22, "Income Taxes" for interperiod and intraperiod income tax allocation. Deferred income taxes are recognized for tax effects of temporary differences. Tax effects on deductible temporary differences, operating loss carry forwards and investment tax credits are recognized as deferred tax assets. Valuation allowance is provided for deferred tax assets when their realization is in doubt. The Bank has considered the impact of the AMT Act in the determination of its tax liabilities using the higher of the statutory income tax or minimum tax under AMT Act as its current period income tax expense.

The adjustments of prior years' income tax are included in the current year's income tax calculation.

The Bank's tax credits are recognized in the current period according to the ROC SFAS No.12, "Accounting for Income Tax Credits".

Income tax at a rate of 10% on undistributed earnings is assessed if the Bank does not distribute all its current year profits. Taxes on undistributed earnings are recorded as expenses in the year the shareholder approves the retention of earnings.

Cathay Financial Holding Co., Ltd. has adopted the consolidated income tax return for income tax filings with its qualified subsidiaries, including the Bank, since 2003.

22. Employee bonus and remuneration of directors

Pursuant to Interpretation 2007-052 issued by the Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors are accounted for as expenses instead of distribution of earnings.

23. Contingencies

A loss is recognized if it is probable that an asset will be impaired or a liability may be incurred and the amount of loss can be reasonably estimated. If the amount of loss cannot be reasonably estimated and the loss is possible, the obligation is disclosed as contingent liabilities in the footnotes to the financial statements.

24. Operating segment information

An operating segment is a component of an entity that has the follow characteristics:

(1) Engaging in business activities from which it may earn revenues and incur expenses;

(2) Whose operating results are regularly reviewed by the entity's chief operating decision marker to make decisions about resource to be allocated to the segment and assess its performance, and

(3) For which discrete financial information is available.

25. Basis for converting financial statements

The Bank's consolidated financial statements are stated in NT dollars. Translation of the December 31, 2012 and 2011 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers, using the noon buying rate of NT$29.05 and NT$30.27 to US$1.00 on December 31, 2012 and 2011, respectively, as provided by the Federal Reserve Bank of New York. The translation amounts are unaudited. Such currency translation should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

## III. Accounting Changes

1. Effective from January 1, 2011, the Bank and its subsidiaries adopted the third revision of the SFAS No. 34 "Financial Instruments: Recognition and Measurement" to treat its financial instruments. No significant effect on the consolidated financial statements for the year ended December 31, 2011.

2. Effective from January 1, 2011, the Bank and its subsidiaries adopted SFAS No. 41, "Operating Segments", to present its operating segment information.

3. In compliance with the Explanatory Letter No. Financial Supervisory Securities Firms 0990073857 issued by Securities and Futures Bureau of the FSC dated January 11, 2011, regarding the revision of the "Regulations Governing Securities Firms" ,the reserves for losses on trading securities are no longer required since January 1, 2011. The remaining balances should be reclassified as special reserve in 2011 according to the Explanatory Letter No. Financial Supervisory Banking Law 10010000440 issued by Banking Bureau of the FSC dated March 23, 2011. The special reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches one-half of the paid-in capital, up to 50% of the special reserve may be transferred to capital stock.

## IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Cash on hand | $13,255,565 | $456,302 | $11,995,509 | $396,284 |
| Checks for clearance | 8,353,592 | 287,559 | 8,641,631 | 285,485 |
| Due from commercial banks | 13,365,129 | 460,073 | 9,487,981 | 313,445 |
| Total | $34,974,286 | $1,203,934 | $30,125,121 | $995,214 |

2. Due from the Central Bank and call loans to banks

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Call loans to banks | $30,984,776 | $1,066,602 | $30,729,847 | $1,015,191 |
| Due from the Central Bank － | | | | |
| Statutory reserve on deposits and general deposits | 78,018,986 | 2,685,679 | 69,371,694 | 2,291,764 |
| Total | $109,003,762 | $3,752,281 | $100,101,541 | $3,306,955 |

(1) The Bank

Statuary reserve on deposits and general deposits consists mainly of New Taiwan Dollar (NTD) and foreign currency deposit reserves.

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT$39,842,843 (US$1,371,526) and NT$39,432,413 (US$1,302,690) as of December 31, 2012 and 2011, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These non-interest bearing reserves may be withdrawn momentarily. As of December 31, 2012 and 2011, the balances of foreign-currency deposit reserves were NT$215,606 (US$7,422) and NT$166,595 (US$5,504), respectively.

(2) Indovina Bank

In accordance with the provisions of the Law on credit institutions, the amounts of compulsory reserves for the State Bank of Vietnam were NT$758,109 (US$26,097) and NT$449,857 (US$14,861) as of December 31, 2012 and 2011, respectively.

(3) SBC Bank

In accordance with the provisions of the Law on credit institutions, the amounts of compulsory reserves for the National of Cambodia NT$211,280 (US$7,273) as of December 31, 2012.

3. Financial assets at fair value through profit or loss

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Financial assets for trading : | | | | |
| Stocks | $140,919 | $4,851 | $114,388 | $3,779 |
| Short-term bills | 59,110,475 | 2,034,784 | 14,865,231 | 491,088 |
| Bonds | 3,197,378 | 110,065 | 1,228,191 | 40,575 |
| Overseas financial instruments | 833,160 | 28,680 | 418,732 | 13,833 |
| Derivative financial instruments | 4,655,954 | 160,274 | 5,287,567 | 174,680 |
| Total | $67,937,886 | $2,338,654 | $21,914,109 | $723,955 |

(1) As of December 31, 2012, certain financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$2,950,500 (US$101,566). Such repurchase agreements amounting to NT$3,252,317 (US$111,956) was posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreements entered prior to December 31, 2012 was settled at NT$3,255,003 (US$112,048) prior to March 31, 2013.

(2) As of December 31, 2012 and 2011, the contract amounts (initial and subsequent measurements are classified under financial assets/liabilities at fair value through profit or loss or other financial assets) of derivative financial instruments (including hedging transaction) are summarized as follows (in thousands of US dollars):

| | December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Forward foreign exchange and currency swap contracts | $21,601,412 | $26,055,155 |
| Interest rate swap contracts | 9,443,064 | 8,678,165 |
| Cross-currency swap contracts | 872,607 | 54,079 |
| Options | 5,654,976 | 837,744 |
| Futures | 500 | - |

(3) Net gains arising from financial assets at fair value through profit or loss for the years ended December 31, 2012 and 2011 were NT$4,228,987 (US$145,576) and NT$25,759,100 (US$850,977), respectively.

4. Receivables, net

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Notes receivable | $- | $- | $15 | $1 |
| Accounts receivable | 36,746,133 | 1,264,927 | 39,793,950 | 1,314,633 |
| Interest receivable | 3,247,141 | 111,778 | 2,810,652 | 92,853 |
| Related party receivables for allocation of linked-tax system | 246,573 | 8,488 | 554,163 | 18,307 |
| Foreign currency receivable | 88,657 | 3,052 | 2,078,037 | 68,650 |
| Acceptances | 1,639,720 | 56,445 | 1,249,855 | 41,290 |
| Tax refundable | 97,438 | 3,354 | 121,290 | 4,007 |
| Factoring receivable | 9,151,418 | 315,023 | 1,370,952 | 45,291 |
| Others | 1,632,947 | 56,211 | 810,278 | 26,768 |
| Total | 52,850,027 | 1,819,278 | 48,789,192 | 1,611,800 |
| Adjustment for discounts and premiums | (5,603) | (193) | (2,638) | (87) |
| Less: allowance for doubtful accounts | (2,006,455) | (69,069) | (2,754,511) | (90,998) |
| Net balance | $50,837,969 | $1,750,016 | $46,032,043 | $1,520,715 |

Information on bad and doubtful accounts are as follows:

| | January 1- December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Allocated allowance | | Unallocated portion | | Total | |
| | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Balance, beginning of the period | $129,860 | $4,470 | $2,624,651 | $90,349 | $2,754,511 | $94,819 |
| Reversal of doubtful accounts | (997,174) | (34,326) | - | - | (997,174) | (34,326) |
| Write-offs | (311,791) | (10,732) | - | - | (311,791) | (10,732) |
| Debt counseling recoveries | 148,839 | 5,123 | - | - | 148,839 | 5,123 |
| Recoveries | 561,498 | 19,329 | - | - | 561,498 | 19,329 |
| Reclassification | 584,906 | 20,134 | (733,745) | (25,258) | (148,839) | (5,124) |
| Effect of exchange rates change | - | - | (589) | (20) | (589) | (20) |
| Balance, end of the period | $116,138 | $3,998 | $1,890,317 | $65,071 | $2,006,455 | $69,069 |

| | January 1- December 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Allocated allowance | | Unallocated portion | | Total | |
| | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Balance, beginning of the period | $2,167,737 | $71,613 | $40,920 | $1,352 | $2,208,657 | $72,965 |
| Reversal of doubtful accounts | (264,737) | (8,746) | - | - | (264,737) | (8,746) |
| Write-offs | (366,477) | (12,107) | - | - | (366,477) | (12,107) |
| Debt counseling recoveries | 152,162 | 5,027 | - | - | 152,162 | 5,027 |
| Recoveries | 653,921 | 21,603 | - | - | 653,921 | 21,603 |
| Reclassification | (2,212,746) | (73,100) | 2,583,731 | 85,356 | 370,985 | 12,256 |
| Balance, end of the period | $129,860 | $4,290 | $2,624,651 | $86,708 | $2,754,511 | $90,998 |

The consolidated financial statements of the Bank and its subsidiaries include doubtful account of receivables based on information available to the Bank and its subsidiaries, including defaults to the extent they can be determined or estimated. Changes in operating or financial performance of customers and general economic conditions of the market may have an impact on the debtor's ability to repay their loans and uncertainty related to the future realizable value of collaterals may cause the amounts of actual losses to differ from those presently determined or estimated and future credit losses that have not been incurred.

5. Discounts and loans, net

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Outward documentary bills | $1,764,969 | $60,756 | $355,418 | $11,741 |
| Overdrafts | 594,231 | 20,455 | 497,529 | 16,436 |
| Short-term loans | 221,898,435 | 7,638,500 | 264,838,787 | 8,749,217 |
| Medium-term loans | 347,094,239 | 11,948,167 | 284,204,215 | 9,388,973 |
| Long-term loans | 439,958,850 | 15,144,883 | 457,332,942 | 15,108,456 |
| Delinquent accounts | 4,177,439 | 143,802 | 3,429,956 | 113,312 |
| Total | 1,015,488,163 | 34,956,563 | 1,010,658,847 | 33,388,135 |
| Adjustment for discounts and premium | 1,097,491 | 37,780 | 866,690 | 28,632 |
| Less: allowance for doubtful accounts | (13,402,461) | (461,359) | (9,599,743) | (317,137) |
| Net balance | $1,003,183,193 | $34,532,984 | $1,001,925,794 | $33,099,630 |

(1) As of December 31, 2012 and 2011, the accounts without interest accrued were NT$3,802,624 (US$130,899) and NT$2,987,964 (US$98,710), respectively. The non-accrued interest on such accounts amounted to NT$62,563 (US$2,154) and NT$23,172 (US$766) for the years ended December 31, 2012 and 2011, respectively.

(2) For the years ended December 31, 2012 and 2011, the Bank and its subsidiaries had not written off any loans unless legal proceedings to collect these loans had been initiated.

(3) Please refer to Note X.7 (2) for details on loans by industries and geographic regions.

(4) Information on bad and doubtful accounts are as follows:

A. The Bank

| | January 1 - December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Allocated allowance | | Unallocated portion | | Total | |
| | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Balance, beginning of the period | $3,059,807 | $105,329 | $6,247,744 | $215,069 | $9,307,551 | $320,398 |
| Provision of doubtful accounts | 3,047,459 | 104,904 | - | - | 3,047,459 | 104,904 |
| Write-offs | (1,072,929) | (36,934) | - | - | (1,072,929) | (36,934) |
| Debt counseling recoveries | 131,902 | 4,541 | - | - | 131,902 | 4,541 |
| Recoveries | 1,530,884 | 52,698 | - | - | 1,530,884 | 52,698 |
| Reclassification | (2,858,338) | (98,394) | 3,007,177 | 103,517 | 148,839 | 5,123 |
| Effects of exchange rates change | - | - | (56,774) | (1,954) | (56,774) | (1,954) |
| Balance, end of the period | $3,838,785 | $132,144 | $9,198,147 | $316,632 | $13,036,932 | $448,776 |

| | January 1 - December 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Allocated allowance | | Unallocated portion | | Total | |
| | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Balance, beginning of the period | $2,558,366 | $84,518 | $4,343,512 | $143,492 | $6,901,878 | $228,010 |
| Provision of doubtful accounts | 790,396 | 26,112 | - | - | 790,396 | 26,112 |
| Write-offs | (371,425) | (12,270) | - | - | (371,425) | (12,270) |
| Debt counseling recoveries | 67,711 | 2,237 | - | - | 67,711 | 2,237 |
| Recoveries | 2,201,404 | 72,725 | - | - | 2,201,404 | 72,725 |
| Reclassification | (2,186,645) | (72,238) | 1,815,660 | 59,982 | (370,985) | (12,256) |
| Effects of exchange rates change | - | - | 88,572 | 2,926 | 88,572 | 2,926 |
| Balance, end of the period | $3,059,807 | $101,084 | $6,247,744 | $206,400 | $9,307,551 | $307,484 |

B. Indovina Bank

| | January 1- December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Balance, beginning of the period | $292,192 | $10,058 | $180,604 | $5,967 |
| Provision of doubtful accounts | 75,353 | 2,594 | 101,518 | 3,353 |
| Effects of exchange rates change, etc. | (12,290) | (423) | 10,070 | 333 |
| Balance, end of the period | $355,255 | $12,229 | $292,192 | $9,653 |

C. SBC Bank

| | January 1- December 31, | |
|---|---|---|
| | 2012 | |
| | NT$ | US$ |
| Balance, beginning of the period | $11,406 | $393 |
| Provision of doubtful accounts | 457 | 15 |
| Effects of exchange rates change, etc. | (1,589) | (54) |
| Balance, end of the period | $10,274 | $354 |

The consolidated financial statements of the Bank and its subsidiaries include provision for possible credit losses and guarantee losses based on information available to the Bank and its subsidiaries, including defaults to the extent they can be determined or estimated. Changes in operating or financial performance of customers and general economic conditions of the market may have an impact on the debtor's ability to repay their loans and uncertainty related to the future realizable value of collaterals may cause the amounts of actual losses to differ from those presently determined or estimated and future credit losses that have not been incurred.

6. Available-for-sale financial assets, net

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Stocks | $7,348,855 | $252,973 | $6,765,923 | $223,519 |
| Mutual funds and beneficiary securities | 1,271,338 | 43,764 | 1,230,942 | 40,666 |
| Bonds | 34,780,589 | 1,197,266 | 31,054,821 | 1,025,927 |
| Overseas financial instruments | 15,049,147 | 518,043 | 8,787,749 | 290,312 |
| Net balance | $58,449,929 | $2,012,046 | $47,839,435 | $1,580,424 |

(1) NT$1,603,158 (US$55,186) and NT$1,504,328 (US$49,697) of the available-for-sale financial assets as of December 31, 2012 and 2011, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of December 31, 2012, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$15,936,600 (US$548,592). Such repurchase agreements amounting to NT$17,116,932 (US$589,223) was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to December 31, 2012 was settled at NT$17,125,290 (US$589,511) prior to June 30, 2013.

As of December 31, 2011, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$13,088,400 (US$432,389). Such repurchase agreements amounting to NT$13,546,462 (US$447,521) was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to December 31, 2011 was settled at NT$13,557,277 (US$447,878) prior to March 31, 2012.

7. Held-to-maturity financial assets, net

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Face value | | Amortized cost | |
| | NT$ | US$ | NT$ | US$ |
| Bonds | $1,978,104 | $68,093 | $2,088,844 | $71,905 |
| Overseas financial instruments | 19,093,132 | 657,251 | 19,580,130 | 674,015 |
| Net balance | $21,071,236 | $725,344 | $21,668,974 | $745,920 |

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Face value | | Amortized cost | |
| | NT$ | US$ | NT$ | US$ |
| Bonds | $2,324,705 | $76,799 | $2,446,128 | $80,811 |
| Overseas financial instruments | 16,411,533 | 542,171 | 16,900,723 | 558,332 |
| Net balance | $18,736,238 | $618,970 | $19,346,851 | $639,143 |

NT$610,570 (US$21,018) and NT$635,080 (US$20,981) of held-to-maturity financial assets as of December 31, 2012 and 2011, respectively, were pledged to other parties as collateral of business reserves and guarantees.

8. Investments accounted for using equity method, net

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Carrying value | | % of | Investment income (loss) | |
| | NT$ | US$ | ownership | NT$ | US$ |
| Seaward Card Co., Ltd. | $39,752 | $1,368 | 100.00 | $2,327 | $80 |
| Taiwan Real-estate Management Corp. | 105,357 | 3,627 | 30.15 | 8,428 | 290 |
| Taiwan Finance Corp. | 1,418,699 | 48,837 | 24.57 | 38,227 | 1,316 |
| Vista Technology Venture Capital Corp. | 1,419 | 49 | 4.76 | (1,788) | (62) |
| Total | $1,565,227 | $53,881 | | $47,194 | $1,624 |

| | December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Carrying value | | % of | Investment income (loss) | |
| | NT$ | US$ | ownership | NT$ | US$ |
| Seaward Card Co., Ltd. | $39,202 | $1,295 | 100.00 | $1,974 | $65 |
| Cathay Life Insurance Agent Co., Ltd | - | - | - | 169 | 6 |
| Taiwan Real-estate Management Corp. | 98,115 | 3,241 | 30.15 | 20,272 | 670 |
| Taiwan Finance Corp. | 1,405,308 | 46,426 | 24.57 | 28,404 | 938 |
| Vista Technology Venture Capital Corp. | 5,203 | 172 | 4.76 | (247) | (8) |
| Total | $1,547,828 | $51,134 | | $50,572 | $1,671 |

(1) On March 1, 2011, Cathay Life Insurance Agent Co., Ltd. was decided its dissolution by the board of directors (according to the Company's Law, the authority of the shareholder meeting acts by board of directors) and completed its liquidation process on June 14, 2012.

(2) The equity method of accounting was applied to Vista Technology Venture Capital Corp. due to the fact that the Bank and its related parties held more than 20% of such company's common stock.

(3) Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the years ended December 31, 2012 and 2011 were recognized based on the investees' unaudited financial statements. No material adjustments were anticipated, have those financial statements been audited.

9. Other financial assets, net

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Derivatives financial assets for hedging | $1,203,138 | $41,416 | $1,438,773 | $47,531 |
| Financial assets carried at cost, stocks | 3,309,393 | 113,920 | 3,396,590 | 112,210 |
| Bills purchased | 13,821 | 476 | 5,437 | 180 |
| Total | $4,526,352 | $155,812 | $4,840,800 | $159,921 |

(1) The Bank has recognized accumulated impairment loss for the equity instruments in the amount of NT$441,236 (US$15,189) and NT$386,131 (US$12,756) as of December 31, 2012 and 2011, respectively, due to the existence of objective impairment evidence.

(2) As of December 31, 2012 and 2011, the above derivative financial assets for hedging applies for fair value hedge, and its fair value were NT$1,203,138 (US$41,416) and NT$1,438,773 (US$47,531), respectively. The Bank has recognized gain in hedging in the amount of NT$380,607 (US$13,102) and NT$432,885 (US$14,301) for the years ended December 31, 2012 and 2011, respectively.

10. Investments in debt securities with no active market, net

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Preferred stocks | $549,730 | $18,923 | $549,730 | $18,161 |
| Certificates of deposit | 410,100,000 | 14,117,040 | 407,350,000 | 13,457,218 |
| Bonds | 95,586 | 3,290 | 95,586 | 3,158 |
| Overseas financial instruments | 14,572,080 | 501,621 | 18,692,534 | 617,527 |
| Subtotal | 425,317,396 | 14,640,874 | 426,687,850 | 14,096,064 |
| Less: accumulated impairment | (1,273,733) | (43,846) | (1,547,584) | (51,126) |
| Net balance | $424,043,663 | $14,597,028 | $425,140,266 | $14,044,938 |

(1) NT$50,100,000 (US$1,724,613) and NT$38,500,000 (US$1,271,886) of certificates of deposit as of December 31, 2012 and 2011, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) The Bank recognized impairment losses amounting NT$1,167,518 (US$40,190) and NT$1,425,790 (US$47,102) as of December 31, 2012 and 2011, respectively, due to the credit deterioration of securitization and financial debentures.

The Bank recognized impairment losses amounting NT$106,215 (US$3,656) and NT$121,794 (US$4,024) as of December 31, 2012 and 2011, respectively, due to the default on the convertible bonds.

11. Premises and equipment, net

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Cost: | | | | |
| Land | $14,358,619 | $494,272 | $14,600,863 | $482,354 |
| Buildings | 11,616,044 | 399,864 | 11,668,159 | 385,470 |
| Office equipment | 4,555,618 | 156,820 | 4,391,157 | 145,066 |
| Transportation equipment | 108,458 | 3,733 | 86,580 | 2,860 |
| Leasehold improvements | 15,855 | 546 | 16,116 | 532 |
| Other equipment | 5,423,162 | 186,684 | 5,550,996 | 183,383 |
| Construction in progress and Prepayment for equipment | 305,134 | 10,504 | 136,041 | 4,494 |
| Subtotal | 36,382,890 | 1,252,423 | 36,449,912 | 1,204,159 |
| Accumulated depreciation: | | | | |
| Buildings | (3,477,769) | (119,717) | (3,287,578) | (108,608) |
| Office equipment | (3,908,661) | (134,549) | (3,618,720) | (119,548) |
| Transportation equipment | (80,176) | (2,760) | (65,373) | (2,160) |
| Leasehold improvements | (9,515) | (327) | (12,359) | (408) |
| Other equipment | (4,539,867) | (156,278) | (4,539,973) | (149,983) |
| Subtotal | (12,015,988) | (413,631) | (11,524,003) | (380,707) |
| Net balance | $24,366,902 | $838,792 | $24,925,909 | $823,452 |

## 12. Intangible assets, net

2012

| | January 1, | | Additions/ Amortization | | Reclassifications | | Disposals | | Effects of exchange rates change | | December 31, | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Goodwill | $6,673,083 | $229,710 | $307,980 | $10,602 | $- | $- | $- | $- | $- | $- | $6,981,063 | $240,312 |
| Computer software | 1,658,408 | 57,088 | 53,368 | 1,837 | 44,669 | 1,538 | (127,993) | (4,406) | (52) | (2) | 1,628,400 | 56,055 |
| Land use rights | 369,220 | 12,710 | - | - | - | - | - | - | (14,066) | (484) | 355,154 | 12,226 |
| Amortization | (1,048,804) | (36,103) | (214,091) | (7,370) | (8) | - | 127,993 | 4,406 | (66) | (3) | (1,134,976) | (39,070) |
| Net balance | $7,651,907 | $263,405 | $147,257 | $5,069 | $44,661 | $1,538 | $- | $- | $(14,184) | $(489) | $7,829,641 | $269,523 |

2011

| | January 1, | | Additions/ Amortization | | Reclassifications | | Disposals | | Effects of exchange rates change | | December 31, | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Goodwill | $6,673,083 | $220,452 | $- | $- | $- | $- | $- | $- | $- | $- | $6,673,083 | $220,452 |
| Computer software | 1,762,737 | 58,234 | 137,160 | 4,531 | (119,414) | (3,945) | (142,010) | (4,692) | 1,593 | 53 | 1,640,066 | 54,181 |
| Land use rights | 355,080 | 11,731 | - | - | - | - | - | - | 14,140 | 467 | 369,220 | 12,198 |
| Amortization | (972,649) | (32,133) | (209,035) | (6,905) | 14,274 | 471 | 134,558 | 4,446 | (1,479) | (49) | (1,034,331) | (34,170) |
| Net balance | $7,818,251 | $258,284 | $(71,875) | $(2,374) | $(105,140) | $(3,474) | $(7,452) | $(246) | $14,254 | $471 | $7,648,038 | $252,661 |

Impairment testing of goodwill:

(1) Goodwill acquired through business combinations has been allocated to the cash-generating unit. The carrying amount of goodwill allocated to the unit is NT$6,981,063 (US$240,312).

(2) Key assumptions used in value in use calculations:

The recoverable amount of the unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by the management of the Bank covering a five-year period.

(3) The calculation of value in use for the unit is most sensitive to the following assumptions:

① Discount rates

Discount rates reflect the current market assessment of the risks specific to the unit. Discount rates are calculated by using the Capital Assets Pricing Model (CAPM).

② Projected growth rates, used to extrapolate cash flows beyond the budget period:

Assumptions are based on published industry research.

(4) Sensitivity to changes in assumptions:

The Bank believes that reasonable possible changes in key assumptions used to determine the recoverable amount segments will not result in an impairment of goodwill.

13. Other assets, net

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Prepayment | $345,686 | $11,900 | $218,835 | $7,229 |
| Temporary payments | 198,030 | 6,817 | 22,573 | 746 |
| Interbank settlement fund | 2,552,473 | 87,865 | 1,363,563 | 45,047 |
| Non-operating assets, net (Accumulated impairment NT$230,555 (US$7,936) and NT$237,055 (US$7,831) on December 31, 2012 and 2011, respectively.) | 1,235,218 | 42,520 | 1,712,151 | 56,563 |
| Refundable deposits, net | 1,313,772 | 45,225 | 992,349 | 32,783 |
| Deferred tax assets, net | 530,464 | 18,260 | 12,048 | 398 |
| Deferred pension costs | 5,404 | 186 | 44,802 | 1,480 |
| Others | 73,747 | 2,538 | 62,428 | 2,062 |
| Total | $6,254,794 | $215,311 | $4,428,749 | $146,308 |

14. Due to the Central Bank and call loans from banks

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Due to commercial banks | $3,596,299 | $123,797 | $2,660,943 | $87,907 |
| Due to Post Co., Ltd. | 19,919,402 | 685,694 | 19,407,169 | 641,136 |
| Overdrafts from banks | 108,340 | 3,729 | 86,387 | 2,854 |
| Call loans from banks | 33,307,732 | 1,146,566 | 40,120,574 | 1,325,423 |
| Total | $56,931,773 | $1,959,786 | $62,275,073 | $2,057,320 |

15. Financial liabilities at fair value through profit or loss

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Financial liabilities for trading: | | | | |
| Derivative financial instruments | $4,967,738 | $171,006 | $4,835,152 | $159,734 |

(1) On July 8 and July 15, 2004, the Bank issued five-year to seven-year dominant financial debentures amounting to NT$1,000,000, NT$3,500,000, NT$2,000,000 and NT$1,000,000, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repaid at maturity, and the interests is payable quarterly or semiannually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004 and on January 14 and February 22, 2005, the Bank issued five-year to seven-year dominant financial debentures amounting to NT$2,500,000, NT$1,500,000, NT$1,500,000, NT$2,500,000, NT$1,500,000, NT$2,500,000, NT$1,000,000, NT$1,000,000, NT$2,000,000 and NT$1,500,000, respectively, with fixed interest rates. These dominant financial debentures are repaid at maturity, and the interests are paid quarterly. These dominant financial debentures are matured before December 31, 2011.

These dominant financial debentures are senior in priority to the subordinated financial debentures and common shares, but are equal to other debts of the Bank.

(2) Net losses arising from financial liabilities at fair value through profit or loss for the years ended December 31, 2012 and 2011 were NT$3,094,196 (US$106,512) and NT$24,541,297 (US$810,746), respectively.

16. Payables

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Accounts payable | $8,408,434 | $289,447 | $8,725,729 | $288,263 |
| Accrued interest payable | 2,620,033 | 90,191 | 2,582,401 | 85,312 |
| Accrued expenses | 4,383,178 | 150,884 | 3,914,748 | 129,328 |
| Foreign currency payable | 68,653 | 2,363 | 742,049 | 24,514 |
| Acceptance | 1,644,088 | 56,595 | 1,256,741 | 41,518 |
| Tax payable | 430,624 | 14,824 | 394,222 | 13,024 |
| Dividends payable | 407,904 | 14,041 | - | - |
| Receipts under custody | 228,744 | 7,874 | 232,540 | 7,682 |
| Others | 3,151,056 | 108,470 | 3,301,163 | 109,057 |
| Total | $21,342,714 | $734,689 | $21,149,593 | $698,698 |

17. Deposits and remittances

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Check deposits | $17,115,953 | $589,189 | $15,025,841 | $496,394 |
| Demand deposits | 266,645,938 | 9,178,862 | 234,041,131 | 7,731,785 |
| Demand savings deposits | 579,112,495 | 19,935,025 | 561,876,492 | 18,562,157 |
| Time deposits | 384,716,809 | 13,243,264 | 394,828,523 | 13,043,559 |
| Negotiable certificates of deposit | 6,922,200 | 238,286 | 1,581,400 | 52,243 |
| Time savings deposits | 283,700,913 | 9,765,952 | 276,089,504 | 9,120,895 |
| Outward remittances | 395,743 | 13,623 | 313,280 | 10,350 |
| Remittances payable | 1,164,015 | 40,070 | 273,016 | 9,019 |
| Total | $1,539,774,066 | $53,004,271 | $1,484,029,187 | $49,026,402 |

18. Financial debentures payable

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Subordinated financial debentures | $41,438,544 | $1,426,456 | $34,724,925 | $1,147,173 |
| Discount in financial debentures | (23,666) | (815) | (32,218) | (1,065) |
| Valuation adjustment | 1,103,753 | 37,995 | 1,331,118 | 43,975 |
| Total | $42,518,631 | $1,463,636 | $36,023,825 | $1,190,083 |

The Bank issued a 15-year US$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semiannually. The Bank can redeem the bonds after 10 years by exercising the call option. As discussed in Note X.8, the Bank has adopted hedge accounting to account for its subordinated financial debentures. The Bank had bought back the bonds amounting to US$172,620 principal on May 12, 2009.

The Bank issued a seven-year subordinated financial debentures totaling NT$1,200,000 with a stated interest rate of 2.95% in September 2008, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling NT$1,000,000 with floating interest rate in September 2008, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling NT$2,800,000 with a stated interest rate of 2.95% in October 2008, and the interest is payable quarterly.

The Bank issued a eight-year subordinated financial debentures totaling NT$3,650,000 with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly.

The Bank issued a ten-year subordinated financial debentures totaling NT$1,500,000 with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling NT$3,850,000 with a stated interest rate of 1.65% in March 2011, and the interest is payable quarterly.

The Bank issued a ten-year subordinated financial debentures totaling NT$1,500,000 with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling NT$3,900,000 with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly.

The Bank issued a ten-year subordinated financial debentures totaling NT$2,500,000 with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling NT$200,000 with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling NT$4,200,000 with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling NT$5,600,000 with a stated interest rate of 1.65% in August 2012, and the interest is payable quarterly.

Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

19. Other financial liabilities

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Borrowed funds | $85,500 | $2,943 | $135,518 | $4,477 |
| Principal received from the sale of structured products | 17,340,691 | 596,926 | 10,475,555 | 346,071 |
| Total | $17,426,191 | $599,869 | $10,611,073 | $350,548 |

20. Other liabilities

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Accrued pension liabilities | $959,084 | $33,015 | $845,953 | $27,947 |
| Unearned receipts | 695,017 | 23,925 | 382,624 | 12,641 |
| Temporary receipts | 844,181 | 29,060 | 441,911 | 14,599 |
| Reserve for losses on guarantees | 24,892 | 857 | 24,892 | 822 |
| Guarantee deposits received | 1,278,507 | 44,010 | 1,044,328 | 34,500 |
| Reserve for land value increment tax | 37,163 | 1,279 | 37,986 | 1,255 |
| Deferred tax liabilities | 4,180 | 144 | 22,796 | 753 |
| Others | - | - | 12,643 | 418 |
| Total | $3,843,024 | $132,290 | $2,813,133 | $92,935 |

In compliance with the Explanatory Letter No. Financial Supervisory Securities Firms 0990073857 issued by securities and Futures Bureau of the FSC dated January 11, 2011, regarding the revision of the “Regulations Governing Securities Firms”, the reserves for losses on trading securities is no longer required since January 1, 2011. The remaining balance should be reclassified as special reserve in 2011 according to the Explanatory Letter No. Financial Supervisory Banking Law 10010000440 issued by Banking Bureau of the FSC dated March 23, 2011. The special reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches one-half of the paid-in capital, up to 50% of the special reserve may be transferred to capital stock.

21. Capital Stock

As of December 31, 2012 and 2011, the Bank had issued and outstanding capital stock of NT$52,277,026 divided into 5,227,703 thousands common shares, with par value NT$10 per share.

22. Capital reserves

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Capital reserves from the merger Bank | $10,949,303 | $376,912 | $10,949,303 | $361,721 |
| Additional paid-in capital | 4,249,096 | 146,268 | 4,249,096 | 140,373 |
| Others | 14,893 | 513 | 14,893 | 492 |
| Total | $15,213,292 | $523,693 | $15,213,292 | $502,586 |

23. Retained earnings

(1) The Bank's articles of incorporation provide that its annual net income shall be appropriated after paying all outstanding taxes and deducting any deficit of prior years and distributed in the following order:

(a) legal reserve shall be set aside before the total amount of the legal reserve reaches the amount of paid-in capital;
(b) special reserves;
(c) regular dividends; and
(d) the remainder, if any, shall be distributed and appropriated as follows: extra dividends: 85%, employees' special bonus: 15%.

(2) The government's regulations stipulate that the Bank must retain part of its annual net income as legal reserve, and cash dividend declaration, if any, should not exceed the limit of 15% of paid-in capital until such retention of legal reserve reaches the amount of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches 25% of the paid-in capital, the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed by issuing new shares or by cash.

(3) The estimation of employee bonus and remuneration of directors for the year ended December 31, 2012 and 2011 were both NT$1,500 based on the average actual payment over the past three year and recognized as operating expense. Resolution approved at the next year shareholders' meeting might differ from the estimation mentioned above and the difference, if any, will be recognized as income or expense in the next year.

(4) On April 24, 2012 and April 29, 2011, respectively, the following are appropriations and distribution approved by the Bank's board of directors (according to the Company's Law, the authority of the Bank's shareholder meeting acts by board of directors)：

The appropriation and distribution of earnings in 2011:
(a) NT$3,351,599 (US$115,373) thousands as legal reserves;
(b) NT$7,820,397 (US$269,205) thousands as dividends to shareholders.
Bonus to employees NT$1,500 (US$52) thousands deducted from Income Statement.

The appropriation and distribution of earnings in 2010:
(a) NT$3,399,524 (US$112,307) thousands as legal reserves;
(b) NT$7,822,529 (US$258,425) thousands as dividends to shareholders.
Bonus to employees NT$1,500 (US$50) thousands deducted from Income Statement.

Information relating to the appropriation of the Bank's earnings is available from the "Market Observation Post System" at the website of the TSE.

24. Pension

(1) The Bank

① The following is a summary of the components of net pension expenses for 2012 and 2011:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ |
| Defined contribution pension plan | $176,766 | $6,085 | $161,692 | $5,341 |
| Defined benefit pension plan: | | | | |
| Service cost | 135,945 | 4,680 | 142,191 | 4,698 |
| Interest cost | 66,830 | 2,301 | 65,198 | 2,154 |
| Expected return on plan assets | (40,409) | (1,391) | (37,103) | (1,226) |
| Net amortization | 84,259 | 2,900 | 86,759 | 2,866 |
| Subtotal | 246,625 | 8,490 | 257,045 | 8,492 |
| Total | $423,391 | $14,575 | $418,737 | $13,833 |

② The following is a reconciliation of the defined benefit pension plan between the funded status and amounts recognized on the Bank's balance sheets, etc.:

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Pension benefit obligation: | | | | |
| Vested | $(2,115,275) | $(72,815) | $(1,828,036) | $(60,391) |
| Non-vested | (1,027,385) | (35,366) | (1,038,366) | (34,303) |
| Accumulated benefit obligation | (3,142,660) | (108,181) | (2,866,402) | (94,694) |
| Value of future salary projections | (655,124) | (22,552) | (475,084) | (15,695) |
| Projected benefit obligation | (3,797,784) | (130,733) | (3,341,486) | (110,389) |
| Fair value of plan assets | 2,183,577 | 75,166 | 2,020,449 | 66,747 |
| Projected benefit obligation in excess of plan assets | (1,614,207) | (55,567) | (1,321,037) | (43,642) |
| Unrecognized net obligation at transition | 5,404 | 186 | 44,802 | 1,480 |
| Unrecognized net loss | 1,608,803 | 55,381 | 1,276,235 | 42,162 |
| Adjustment to minimum pension liabilities | (959,084) | (33,015) | (845,953) | (27,947) |
| Accrued pension liabilities | $(959,084) | $(33,015) | $(845,953) | $(27,947) |

The actuarial assumptions used are:

| | December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Discount rate | 1.75% | 2.00% |
| Growth rate in compensation levels | 2.00% | 2.00% |
| Expected long-term rate of return on plan assets | 2.00% | 2.00% |

As of December 31, 2012 and 2011, the vested benefit, based on the Bank's defined benefit pension plan, amounted to NT$2,839,309 (US$97,739) and NT$2,587,549 (US$85,482), respectively.

(2) Indovina Bank

The following is a summary of the components of net pension expenses for 2012 and 2011:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ |
| Defined benefit pension plan | $363 | $12 | $955 | $32 |

25. Certain components of operating expenses

The following is a summary of the components of personnel, depreciation and amortization expenses for the years ended December 31, 2012 and 2011:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ |
| Personnel expenses | | | | |
| Salary | $7,003,490 | $241,084 | $6,613,420 | $218,481 |
| Insurance | 867,838 | 29,874 | 801,800 | 26,488 |
| Pension | 423,754 | 14,587 | 419,692 | 13,865 |
| Others | 384,163 | 13,224 | 386,222 | 12,759 |
| Depreciation expenses | 943,806 | 32,489 | 1,039,919 | 34,355 |
| Amortization expenses | 214,091 | 7,370 | 209,035 | 6,905 |

26. Income tax

Under a directive issued by the Ministry of Finance (MOF), a financial holding company and its domestic subsidiaries that hold over 90% of shares issued by the financial holding company for 12 months within the same tax year may choose to adopt the consolidated income tax return for income tax filings. Additional tax and tax receivable resulting from the consolidated income tax return are recorded in the account of consolidated income tax return payable or receivable. The ROC SFAS No.22 remains applicable to the Bank.

(1) The reconciliation between income tax payable and income tax expense for the years ended December 31, 2012 and 2011 are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ |
| Income tax payable: | | | | |
| Domestic income tax: | | | | |
| General | $(1,816,966) | $(62,546) | $(1,532,966) | $(50,643) |
| Foreign subsidiaries (the tax rate for the years ended December 31, 2012 and 2011 were 20%~25% and 25%, respectively.) | (132,977) | (4,578) | (189,672) | (6,266) |
| Deferred tax benefit (expense): | | | | |
| Allowance for bad debt | 572,131 | 19,695 | 224,139 | 7,405 |
| Reversal of allowance pledged assets taken-over | (996) | (34) | (1,198) | (40) |
| Foreign investment income recognized by the equity method | 35,815 | 1,233 | (49,076) | (1,621) |
| Valuation allowance | (117,073) | (4,030) | (38,841) | (1,283) |
| Others | (74,238) | (2,556) | (76,173) | (2,517) |
| Effect of foreign branches' income tax | (103,706) | (3,570) | (27,809) | (919) |
| Adjustment of prior period's income tax | 36,033 | 1,240 | (52,076) | (1,720) |
| Income tax expense | $(1,601,977) | $(55,146) | $(1,743,672) | $(57,604) |

Under the local Tax Law, income tax was based on taxable income from all sources for the period. Foreign income tax paid with relative documents submitted could be used as income credit against domestic tax payable to the extent of domestic income tax applicable to the related foreign-source income.

(2) Deferred tax liabilities and assets resulting from the following timing differences:

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| The Bank | | | | |
| Taxable temporary differences: | | | | |
| Valuation of financial instruments | $168,830 | $5,812 | $250,119 | $8,263 |
| Others | 2,134,377 | 73,473 | 2,014,187 | 66,541 |
| Deductible temporary differences: | | | | |
| Allowance for bad debt | 3,723,567 | 128,178 | 1,054,770 | 34,845 |
| Unrealized impairment loss for pledged assets taken-over | 29,311 | 1,009 | 35,170 | 1,162 |
| Valuation of financial instruments | 45,818 | 1,577 | 5,968 | 197 |
| Provisions for possible losses | - | - | 2,414 | 80 |
| Others | 921,000 | 31,704 | 366,970 | 12,123 |
| Deferred income tax assets of foreign branches | 119,661 | 4,119 | 113,036 | 3,734 |
| The Bank | | | | |
| Deferred tax assets | $922,009 | $31,738 | $362,136 | $11,963 |
| Deferred tax liabilities | (391,545) | (13,478) | (384,932) | (12,716) |
| Net deferred tax liabilities | $530,464 | $18,260 | $(22,796) | $(753) |
| Subsidiaries | | | | |
| Deferred tax assets | $(4,180) | $(144) | $12,048 | $398 |

(3) The Bank's income tax returns for the years prior to 2006 have been assessed by the tax authority.

(4) The related information on shareholders' deductible income tax are as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| The Bank's imputation credit | $111,496 | $3,838 | $146,413 | $4,837 |
| Undistributed earnings | 13,068,125 | 449,849 | 11,171,996 | 369,078 |

27. Earnings per share

The computations of earnings per share are as follows:

| | In thousands of shares | |
|---|---|---|
| | 2012 | 2011 |
| Weighted-average shares outstanding | 5,227,703 | 5,227,703 |

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ |
| Income from continuing operations | $14,869,938 | $511,874 | $13,172,093 | $435,154 |
| Income tax expense | (1,601,977) | (55,146) | (1,743,672) | (57,604) |
| Net income | $13,267,961 | $456,728 | $11,428,421 | $377,550 |
| | | | | |
| Attributable to: | | | | |
| Equity holders of the parent | $13,068,125 | $449,849 | $11,139,739 | $368,013 |
| Minority interest | 199,836 | 6,879 | 288,682 | 9,537 |
| Net income | $13,267,961 | $456,728 | $11,428,421 | $377,550 |
| | | | | |
| Basic earnings per share(in dollars) | | | | |
| Income from continuing operations | $2.85 | $0.098 | $2.52 | $0.083 |
| Income tax expense | (0.31) | (0.011) | (0.33) | (0.011) |
| Net income | $2.54 | $0.087 | $2.19 | $0.072 |
| | | | | |
| Basic earnings per share(in dollars) | | | | |
| Equity holders of the parent | $2.50 | $0.086 | $2.13 | $0.070 |
| Minority interest | 0.04 | 0.001 | 0.06 | 0.002 |
| Net income | $2.54 | $0.087 | $2.19 | $0.072 |

V. Related parties transactions

1. Name and relationships of related parties are as follows:

| Name of related parties | Relationship |
|---|---|
| Cathay Financial Holding Co., Ltd. | Parent company |
| Cathay Life Insurance Co., Ltd. | Subsidiary of Cathay Financial Holdings |
| Cathay Century Insurance Co., Ltd. | 〃 |
| Cathay Securities Corp. | 〃 |
| Cathay Pacific Venture Capital Co., Ltd. | 〃 |
| Cathay Securities Investment Trust Co., Ltd. | 〃 |

| Name of related parties | Relationship |
|---|---|
| Cathay Securities Investment Consulting Co., Ltd. | Subsidiary of Cathay Life Insurance |
| Cathay Insurance (Bermuda) Co., Ltd. | 〃 |
| Symphox Information Co., Ltd. | 〃 |
| Cathay Life Insurance (China) Co., Ltd. | 〃 |
| Cathay Life Insurance (Vietnam) Co., Ltd. | 〃 |
| Seaward Card Co., Ltd. | Subsidiaries |
| Cathay Life Insurance Agent Co., Ltd. | Subsidiaries (liquidated on June 14, 2012) |
| Vietinbank | Major stockholder of Indovina Bank |
| Cathay Futures Corp. | Subsidiary of Cathay Securities Corp. |
| Cathay Dragon Fund etc. | The funds which are managed by Cathay Securities Investment Trust Co., Ltd. |
| Cathay Insurance Company Limited (China) | Subsidiary of Cathay Century Insurance Corp. |
| Cathay Insurance (Vietnam) Co., Ltd. | 〃 |
| Cathay General Hospital | Related Party disclosed according to the ROC SFAS No. 6 |
| Lin Yuan Property Management and Maintenance Co., Ltd. | 〃 |
| Cathay Real Estate Development Co., Ltd. | 〃 |
| San Ching Engineering Corp. | 〃 |
| Cathay Century Realty Co., Ltd. | Related Party disclosed according to the ROC SFAS No.6 (was decided its dissolution by the board of directors on March 16, 2011 and currently still in the process of dissolution) |
| Cathay Real-estate Management Corp. | Related Party disclosed according to the ROC SFAS No.6 |
| Cathay Healthcare Inc. | 〃 |
| Cathay Lin Yuan Security Co., Ltd. | Related Party disclosed according to the ROC SFAS No.6 (was decided its dissolution by the board of directors on May 25, 2011 and currently still in the process of dissolution) |
| Seaward Leasing Ltd. | Related party disclosed according to the ROC SFAS No. 6 (incorporated into the Cathay Real Estate Development on July 28, 2011) |
| Cathay Hospitality Management Co., Ltd. | Related Party disclosed according to the ROC SFAS No.6 |
| Taiwan Real-estate Management Corp. | The investee is accounted for using the equity method |
| Taiwan Finance Corp. | 〃 |
| Culture and Charity Foundation of Cathay United Bank | The Bank is the major sponsor of the foundation |
| Others | Certain Directors, Supervisors, Managers and relatives of the Bank’s Chairman and President, etc. |

2. Significant transactions with the related parties are summarized as follows:

(1) Loans and Deposits

| Accounts/Related parties | December 31, Account balance NT$ | US$ | % of Account | January 1- December 31, Interest income (expense) NT$ | US$ |
|---|---|---|---|---|---|
| 2012 | | | | | |
| Loans | | | | | |
| Cathay Real Estate Development Co., Ltd. | $- | - | - | $602 | $21 |
| Taiwan Real-estate Management Corp. | 65,000 | 2,237 | - | 1,397 | 48 |
| Cathay General Hospital | 103,000 | 3,546 | 0.01% | 3,047 | 105 |
| Others | 265,425 | 9,137 | 0.03% | 3,253 | 112 |
| Total | $433,425 | $14,920 | 0.04% | $8,299 | $286 |
| Deposits | | | | | |
| Cathay Financial Holding Co., Ltd. | $93,389 | $3,215 | 0.01% | $(2,274) | $(78) |
| Cathay Life Insurance Co., Ltd. | 73,919,996 | 2,544,578 | 4.80% | (460,387) | (15,848) |
| Cathay Century Insurance Co., Ltd. | 1,285,715 | 44,259 | 0.08% | (11,091) | (382) |
| Cathay Securities Corp. | 1,797,618 | 61,880 | 0.12% | (7,040) | (242) |
| Cathay Futures Corp. | 1,978,796 | 68,117 | 0.13% | (21,587) | (743) |
| Cathay Pacific Venture Capital Co., Ltd. | 65,757 | 2,263 | - | (41) | (1) |
| Cathay Securities Investment Trust Co., Ltd. | 1,745,795 | 60,096 | 0.11% | (12,388) | (426) |
| Cathay Real Estate Development Co., Ltd. | 279,019 | 9,605 | 0.02% | (189) | (7) |
| Cathay Life Insurance (Vietnam) Co., Ltd. | - | - | - | (58) | (2) |
| Cathay Dragon Fund etc. | 3,258,081 | 112,154 | 0.21% | (19,652) | (677) |
| Others | 6,655,469 | 229,104 | 0.43% | (62,678) | (2,158) |
| Total | $91,079,635 | $3,135,271 | 5.91% | $(597,385) | $(20,564) |

| Accounts/Related parties | December 31, Account balance NT$ | US$ | % of Account | January 1- December 31, Interest income (expense) NT$ | US$ |
|---|---|---|---|---|---|
| 2011 | | | | | |
| Loans | | | | | |
| Cathay Real Estate Development Co., Ltd. | $- | - | - | $3,877 | $128 |
| Seaward Leasing Ltd. | - | - | - | 5,699 | 188 |
| Taiwan Real-estate Management Corp. | 80,000 | 2,643 | 0.01% | 1,715 | 57 |
| Cathay General Hospital | 103,000 | 3,402 | 0.01% | 4,152 | 137 |
| Others | 207,829 | 6,866 | 0.02% | 4,862 | 161 |
| Total | $390,829 | $12,911 | 0.04% | $20,305 | $671 |
| Deposits | | | | | |
| Cathay Financial Holding Co., Ltd. | $60,579 | $2,001 | - | $(106) | $(4) |
| Cathay Life Insurance Co., Ltd. | 62,695,468 | 2,071,208 | 4.23% | (296,518) | (9,796) |
| Cathay Century Insurance Co., Ltd. | 1,335,125 | 44,107 | 0.09% | (7,663) | (253) |
| Cathay Securities Corp. | 746,384 | 24,658 | 0.05% | (1,304) | (43) |
| Cathay Futures Corp. | 2,289,023 | 75,620 | 0.16% | (17,319) | (572) |
| Cathay Pacific Venture Capital Co., Ltd. | 17,239 | 569 | - | (18) | (1) |
| Cathay Securities Investment Trust Co., Ltd. | 1,695,233 | 56,004 | 0.11% | (6,449) | (213) |
| Cathay Real Estate Development Co., Ltd. | 215,767 | 7,128 | 0.02% | (130) | (4) |
| Cathay Life Insurance (Vietnam) Co., Ltd. | 23,279 | 769 | - | (369) | (12) |
| Cathay Dragon Fund etc. | 3,533,073 | 116,719 | 0.24% | (23,593) | (780) |
| Others | 6,278,454 | 207,415 | 0.42% | (50,289) | (1,661) |
| Total | $78,889,624 | $2,606,198 | 5.32% | $(403,758) | $(13,339) |

| Accounts / Related parties | January 1- December 31, Maximum balance NT$ | US$ | December 31, Account balance NT$ | US$ | January 1 - December 31, Interest income (expense) NT$ | US$ | Interest Rate (%) |
|---|---|---|---|---|---|---|---|
| 2012 | | | | | | | |
| Call loans to banks | | | | | | | |
| Vietinbank | $6,376,067 | $219,486 | $6,376,067 | $219,486 | $217,002 | $7,470 | 0.80%-16% |
| Due from commercial banks | | | | | | | |
| Vietinbank | 14,732 | 507 | 5,722 | 197 | - | - | - |
| Call loans from banks | | | | | | | |
| Vietinbank | 2,797,772 | 96,309 | 2,797,772 | 96,309 | (132,414) | (4,558) | 3%-16% |
| Due to commercial banks | | | | | | | |
| Vietinbank | 16,549 | 570 | 5,722 | 197 | - | - | - |

| Accounts / Related parties | January 1- December 31, Maximum balance NT$ | US$ | December 31, Account balance NT$ | US$ | January 1 - December 31, Interest income (expense) NT$ | US$ | Interest Rate (%) |
|---|---|---|---|---|---|---|---|
| 2011 | | | | | | | |
| Call loans to banks | | | | | | | |
| Vietinbank | $13,646,768 | $450,835 | $5,731,948 | $189,361 | $83,165 | $2,747 | 2.40%-19% |
| Due from commercial banks | | | | | | | |
| Vietinbank | 23,666 | 782 | 23,666 | 782 | 20 | 1 | - |
| Due to commercial banks | | | | | | | |
| Vietinbank | 17,671 | 584 | 1,395 | 46 | - | - | - |
| Call loans from banks | | | | | | | |
| Vietinbank | 4,657,248 | 153,857 | 4,072,018 | 134,523 | (54,960) | (1,816) | 11.50%-16% |

Transactions terms with related parties are similar to those with third parties.

(2) Guarantees

| Related Parties | January 1- December 31, Maximum balance NT$ | US$ | December 31, Account balance NT$ | US$ | January 1- December 31, Service fees NT$ | US$ |
|---|---|---|---|---|---|---|
| 2012 | | | | | | |
| Cathay Hospitality Management Co., Ltd. | $21,816 | $751 | $21,816 | $751 | $1,010 | $35 |

(3) Compensation of key management personnel of the Bank

| | 2012 | | 2011 | |
|---|---|---|---|---|
| Items | NT$ | US$ | NT$ | US$ |
| Salaries, bonus, other remuneration | $66,141 | $2,277 | $68,984 | $2,279 |

Note: The above total salaries and remuneration of the key management exclude the chauffeur's remuneration for the years ended December 31, 2012 and 2011 were NT$3,907 (US$134) and NT$3,990 (US$132), respectively.

The key management personnel of the Bank include the Chairman, Vice-Chairman, Directors, Supervisors, President and Vice-President.

Information relating to the above compensation of the key management personnel, please refers to the Bank's annual report.

(4) Transactions under resale and repurchase agreements

| | December 31, Account balance | | January 1- December 31, Interest expense | |
|---|---|---|---|---|
| Accounts/Related parties | NT$ | US$ | NT$ | US$ |
| 2012 | | | | |
| Securities sold under agreements to repurchase | | | | |
| Cathay Securities Investment Trust Co., Ltd. | $20,000 | $689 | $(492) | $(17) |
| Others | 60,081 | 2,068 | (251) | (9) |
| Total | $80,081 | $2,757 | $(743) | $(26) |
| 2011 | | | | |
| Securities sold under agreements to repurchase | | | | |
| Cathay Securities Investment Trust Co., Ltd. | $61,010 | $2,015 | $(199) | $(7) |
| Others | 1,300,456 | 42,962 | (1,799) | (59) |
| Total | $1,361,466 | $44,977 | $(1,998) | $(66) |

(5) Lease

| | 2012 | | 2011 | |
|---|---|---|---|---|
| Accounts/Related parties | NT$ | US$ | NT$ | US$ |
| Rental income | | | | |
| Cathay Life Insurance Co., Ltd. | $37,320 | $1,285 | $36,460 | $1,204 |
| Cathay Century Insurance Co., Ltd. | 7,681 | 264 | 6,559 | 217 |
| Cathay Securities Corp. | 8,207 | 283 | 10,789 | 356 |
| Culture and Charity Foundation of Cathay United Bank | 2,643 | 91 | 1,000 | 33 |
| Rental expense | | | | |
| Cathay Life Insurance Co., Ltd. | 352,726 | 12,142 | 339,807 | 11,226 |
| Cathay Real Estate Development Co., Ltd. | 30,112 | 1,037 | 16,041 | 530 |
| Seaward Leasing Ltd. | - | - | 8,757 | 289 |

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Accounts/Related parties | NT$ | US$ | NT$ | US$ |
| Refundable deposits | | | | |
| Cathay Life Insurance Co., Ltd. | $85,466 | $2,942 | $71,365 | $2,358 |
| Cathay Real Estate Development Co., Ltd. | 13,932 | 480 | 3,786 | 125 |
| Guarantee deposit received | | | | |
| Cathay Life Insurance Co., Ltd. | 14,790 | 509 | 8,921 | 295 |
| Cathay Century Insurance Co., Ltd. | 2,085 | 72 | 1,661 | 55 |
| Cathay Securities Corp. | 2,536 | 87 | 2,299 | 76 |

Transaction terms with the related parties are similar to those with third parties. Contract prices for related-party contracts are consistent with market prices, and payments are duly made and received in accordance with the terms of the contracts.

| Accounts/Related parties | 2012 NT$ | 2012 US$ | 2011 NT$ | 2011 US$ |
|---|---|---|---|---|
| (6) Commissions and handling fees income | | | | |
| Cathay Life Insurance Co., Ltd. | $2,506,115 | $86,269 | $1,717,821 | $56,750 |
| Cathay Century Insurance Co., Ltd. | 78,201 | 2,692 | 76,834 | 2,538 |
| Cathay Securities Co., Ltd. | 6,898 | 237 | 8,868 | 293 |
| Cathay Securities Investment Trust Co., Ltd. | 37,435 | 1,289 | 27,712 | 915 |
| Cathay Securities Investment Consulting Co., Ltd. | 7,943 | 273 | 4,490 | 148 |
| (7) Other operating income | | | | |
| Cathay Century Insurance Co., Ltd. | $3,107 | $107 | $1,186 | $39 |
| (8) Operating expenses | | | | |
| Cathay Life Insurance Co., Ltd. | 94,630 | 3,257 | 101,583 | 3,356 |
| Cathay Securities Corp. | 2,400 | 83 | 2,400 | 79 |
| Seaward Card Co., Ltd. | 227,914 | 7,846 | 242,154 | 8,000 |
| Symphox Information Co., Ltd. | 430,341 | 14,814 | 475,643 | 15,713 |
| Cathay Real Estate Development Co., Ltd. | 5,675 | 195 | 7,411 | 245 |
| Cathay Lin Yuan Security Co., Ltd. | - | - | 1,010 | 33 |
| Cathay General Hospital | 656 | 23 | 8,991 | 297 |
| Lin Yuan Property Management and Maintenance Co., Ltd. | 8,335 | 287 | 7,020 | 232 |
| Cathay Healthcare Inc. | 4,788 | 165 | - | - |
| (9) Insurance expenses paid | | | | |
| Cathay Life Insurance Co., Ltd. | 651,850 | 22,439 | 620,289 | 20,492 |
| Cathay Century Insurance Co., Ltd. | 98,341 | 3,385 | 101,622 | 3,357 |

| Accounts/Related parties | December 31, 2012 NT$ | December 31, 2012 US$ | December 31, 2011 NT$ | December 31, 2011 US$ |
|---|---|---|---|---|
| (10) Related party receivables for allocation of linked-tax system | | | | |
| Cathay Financial Holdings Co., Ltd. | $246,573 | $8,488 | $554,163 | $18,307 |

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Accounts/Related parties | NT$ | US$ | NT$ | US$ |
| (11) Refundable deposit | | | | |
| Cathay Futures Corp. | 64,345 | 2,215 | 72,544 | 2,397 |
| (12) Dividends payable | | | | |
| Vietinbank | 407,904 | 14,041 | - | - |
| (13) Accrued expenses | | | | |
| Seaward Card Co., Ltd. | 26,131 | 900 | 27,223 | 899 |
| (14) Accounts payable | | | | |
| Cathay Century Insurance Co., Ltd | 4,855 | 167 | $44,226 | $1,461 |
| Symphox Information Co., Ltd. | 12,396 | 427 | 10,272 | 339 |

(15) Others

a. The Bank sold its land and building in Taipei to Cathay Life Insurance Co., Ltd. for NT$316,210 (US$10,446) (taxes were deducted) during the second quarter of 2011, the relevant carrying values were NT$146,959 (US$4,855) and the disposal gains of premises and equipment were NT$169,251 (US$5,591).

b. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of NT$4,006 (US$138) and NT$4,941 (US$163) during the years ended December 31, 2012 and 2011, respectively.

c. The Bank purchased bonus points of exchanging merchandise for the Bank's customer from Symphox Information Co., Ltd. during the years ended December 31, 2012 and 2011. As of December 31, 2012 and 2011, the bonus points which not converting amount were NT$26,517 (US$913) and NT$32,817 (US$1,084), respectively.

d. The Bank entered into a contract with Cathay Life Insurance Co., Ltd. to transferring credit facilities. The transferring loan amount were NT$1,280,000 (US$42,286) during the year ended December 31, 2011.

e. Cathay Century Realty Co., Ltd. acted as a broker for the Bank to dispose of real estate, the commissions of NT$2,915 (US$96) were included in disposal gains of premises and equipment, during the year ended December 31, 2011.

f. The Bank sold its land and buildings to Cathay Real Estate Development Co., Ltd. for NT$1,925,949 (US$66,298) (taxes were deducted) during the fourth quarter of 2012, the relevant carrying values were NT$388,064 (US$13,359) and the disposal gains NT$1,537,885 (US$52,939).

The terms of the foregoing transactions with related parties are similar to those with third parties.

Combined disclosures have been made for transactions with related parties that are under a certain percentage of the total amount of all transactions with related parties and non-related parties.

(16) Transactions of derivative financial instruments

| | | | Notional amount | | Valuation gains (losses) | |
|---|---|---|---|---|---|---|
| Related parties | Category of agreements | Term of agreements | NT$ | US$ | NT$ | US$ |
| 2012 | | | | | | |
| Cathay Life Insurance Co., Ltd. | Currency swap | 2012.04.27-2014.12.15 | $28,698,960 | $987,916 | $(845,949) | $(29,120) |
| Cathay Century Insurance Co., Ltd. | Currency swap | 2012.01.09-2013.11.15 | 2,260,544 | 77,816 | (27,887) | (960) |
| | Interest rate swap | 2007.09.27-2015.04.30 | 400,000 | 13,769 | (27,691) | (953) |
| The funds which are managed by Cathay Securities Investment Trust Co., Ltd. | Currency swap | 2012.12.26-2013.01.31 | 174,816 | 6,018 | 3,909 | 135 |
| 2011 | | | | | | |
| Cathay Life Insurance Co., Ltd. | Forward | - | $- | $- | $(2,010,925) | $(66,433) |
| | Currency swap | 2011.03.08-2012.05.22 | 57,551,000 | 1,901,255 | (2,693,796) | (88,992) |
| Cathay Century Insurance Co., Ltd. | Currency swap | 2011.01.05-2012.06.13 | 1,243,405 | 41,077 | (12,063) | (399) |
| | Interest rate swap | 2007.09.27-2015.04.30 | 600,000 | 19,822 | (39,686) | (1,311) |
| The funds which are managed by Cathay Securities Investment Trust Co., Ltd. | Forward | - | - | - | (3,538) | (117) |
| | Non-delivery forward | - | - | - | (38) | (1) |

## VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

## VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2012, the Bank and its subsidiaries had the following commitments and contingent liabilities, which are not reflected in the financial statements:

1. The Bank

| | NT$ | US$ |
|---|---|---|
| (1) Entrusted Items and Guarantees: | | |
| Trust and security held for safekeeping | $337,334,621 | $11,612,207 |
| Travelers checks for sale | 462,167 | 15,909 |
| Bills for collection | 39,523,311 | 1,360,527 |
| Book-entry for government bonds and depository for short-term marketable securities under management | 564,494,500 | 19,431,824 |
| Entrusted financial management business | 2,385,838 | 82,129 |
| Guarantees on duties and contracts | 12,081,454 | 415,885 |
| Unused commercial letters of credit | 4,281,218 | 147,374 |
| Irrevocable loan commitments | 34,415,264 | 1,184,691 |
| Credit card lines commitments | 295,794,164 | 10,182,243 |
| Stamp tax, securities and memorial currency consignments | 1,006 | 35 |

(2) As of December 31, 2012, the Bank's significant lawsuits and proceedings are as follows:

Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that the Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted NT$0.99 billion (US$34 million) and NT$3.09 billion (US$106 million), respectively. The lawsuit was in the litigation procedures in July, 2007 and is still under trial by Taipei District Court. The Bank is in mediation procedure with SanDisk Corporation. The Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements. The Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements.

(3) As of December 31, 2012, the Bank had entered into certain contracts to purchase premises and equipment totaling NT$446,566 (US$15,372) with prepayments of NT$139,929 (US$4,817).

(4) According to the operating leases agreement, rentals for lease should be paid in future are as follows:

| Periods | NT$ | US$ |
|---|---|---|
| 2013.1.1~2013.12.31 | $553,733 | $19,061 |
| 2014.1.1~2014.12.31 | 264,188 | 9,094 |
| 2015.1.1~2015.12.31 | 177,036 | 6,094 |
| 2016.1.1~2016.12.31 | 64,762 | 2,229 |
| 2017.1.1~2017.12.31 | 47,149 | 1,623 |

2. Indovina Bank

(1) As of December 31, 2012, Indovina Bank's outstanding off-balance sheet financial instruments on concentrations of credit risk are as follows:

| | NT$ | US$ |
|---|---|---|
| Unused commercial letters of credit | $652,199 | $22,451 |
| Guarantees | 852,596 | 29,349 |

(2) As of December 31, 2012, Indovina Bank had outstanding commitments under non-cancelable operating leases, which fall due as follows:

| Periods | NT$ | US$ |
|---|---|---|
| 2013.1.1~2013.12.31 | $39,677 | $1,366 |
| 2014.1.1~2014.12.31 | 58,960 | 2,030 |

3. SBC Bank

(1) As of December 31, 2012, SBC Bank's outstanding off-balance sheet financial instruments on concentrations of credit risk are as follows:

| | NT$ | US$ |
|---|---|---|
| Unused commercial letters of credit | $20,350 | $701 |
| Guarantees | 60,683 | 2,089 |

(2) As of December 31, 2012, SBC Bank had outstanding commitments under non-cancelable operating leases, which fall due as follows:

| Periods | NT$ | US$ |
|---|---|---|
| 2013.1.1~2013.12.31 | $3,395 | $117 |
| 2014.1.1~2014.12.31 | 2,303 | 79 |
| 2015.1.1~2015.12.31 | 1,540 | 53 |
| 2016.1.1~2016.12.31 | 831 | 29 |
| 2017.1.1~2017.12.31 | 131 | 5 |

## VIII. Significant disaster losses

None.

## IX. Significant subsequent event

None.

## X. Disclosure of financial instruments information

### 1. Information of fair value

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Carrying value | | Fair value | |
| | NT$ | US$ | NT$ | US$ |
| Non-derivative financial instruments of the Bank and its subsidiaries | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | $63,281,932 | $2,178,380 | $63,281,932 | $2,178,380 |
| Available-for-sale financial assets | 58,449,929 | 2,012,046 | 58,449,929 | 2,012,046 |
| Held-to-maturity financial assets and investment in debt securities with no active market | 445,712,637 | 15,342,948 | 445,798,773 | 15,345,913 |
| Other financial assets-financial assets carried at cost | 3,309,393 | 113,920 | (Note) | (Note) |
| Others | 1,199,326,803 | 41,284,916 | 1,199,326,803 | 41,284,916 |
| Liabilities | | | | |
| Financial debentures payable | 42,518,631 | 1,463,636 | 42,518,631 | 1,463,636 |
| Others | 1,658,579,300 | 57,093,952 | 1,658,579,300 | 57,093,952 |
| Derivative financial instruments of the Bank | | | | |
| Assets | | | | |
| Forward | 553,680 | 19,060 | 553,680 | 19,060 |
| Non-delivery forward | 245,801 | 8,461 | 245,801 | 8,461 |
| Currency swap | 1,735,384 | 59,738 | 1,735,384 | 59,738 |
| Interest rate swap | 2,707,170 | 93,190 | 2,707,170 | 93,190 |
| Cross currency swap | 132,380 | 4,557 | 132,380 | 4,557 |
| Options | 484,616 | 16,682 | 484,616 | 16,682 |
| Futures | 61 | 2 | 61 | 2 |
| Liabilities | | | | |
| Forward | 120,980 | 4,165 | 120,980 | 4,165 |
| Non-delivery forward | 152,747 | 5,258 | 152,747 | 5,258 |
| Currency swap | 2,542,238 | 87,512 | 2,542,238 | 87,512 |
| Interest rate swap | 1,403,596 | 48,317 | 1,403,596 | 48,317 |
| Cross currency swap | 233,165 | 8,026 | 233,165 | 8,026 |
| Options | 515,012 | 17,728 | 515,012 | 17,728 |

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Carrying value | | Fair value | |
| | NT$ | US$ | NT$ | US$ |
| Non-derivative financial instruments of the Bank and its subsidiaries | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | $16,626,542 | $549,275 | $16,626,542 | $549,275 |
| Available-for-sale financial assets | 47,839,435 | 1,580,424 | 47,839,435 | 1,580,424 |
| Held-to-maturity financial assets and investment in debt securities with no active market | 444,487,117 | 14,684,081 | 444,566,883 | 14,686,716 |
| Other financial assets-financial assets carried at cost | 3,396,590 | 112,210 | (Note) | (Note) |
| Others | 1,181,491,073 | 39,031,750 | 1,181,491,073 | 39,031,750 |
| Liabilities | | | | |
| Financial debentures payable | 36,023,825 | 1,190,083 | 36,023,825 | 1,190,083 |
| Others | 1,594,170,216 | 52,665,022 | 1,594,170,216 | 52,665,022 |
| Derivative financial instruments of the Bank | | | | |
| Assets | | | | |
| Forward | 2,290,792 | 75,679 | 2,290,792 | 75,679 |
| Non-delivery forward | 68,302 | 2,256 | 68,302 | 2,256 |
| Currency swap | 522,734 | 17,269 | 522,734 | 17,269 |
| Interest rate swap | 3,218,010 | 106,310 | 3,218,010 | 106,310 |
| Cross currency swap | 304,684 | 10,065 | 304,684 | 10,065 |
| Options | 321,818 | 10,632 | 321,818 | 10,632 |
| Liabilities | | | | |
| Forward | 539,462 | 17,822 | 539,462 | 17,822 |
| Non-delivery forward | 73,621 | 2,432 | 73,621 | 2,432 |
| Currency swap | 2,053,111 | 67,826 | 2,053,111 | 67,826 |
| Interest rate swap | 1,601,849 | 52,919 | 1,601,849 | 52,919 |
| Cross currency swap | 305,211 | 10,083 | 305,211 | 10,083 |
| Options | 261,898 | 8,652 | 261,898 | 8,652 |

Note: Fair value cannot be reliably estimated.

2. The methodologies and assumptions used by the Bank and its subsidiaries to estimate the above fair value of financial instruments are summarized as following:

   (1) The carrying value of short-term financial instruments, such as cash and cash equivalents, receivables, securities purchased under agreements to resell, securities sold under agreements to repurchase, payables, refundable deposits, Guarantee deposits, borrowed funds, due from the Central Bank and call loans to banks and due to the Central Bank and call loans from banks arising in the ordinary course of business, approximate fair value because of the relatively short period of time between their origination and expected realization.

   (2) Quoted market price, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss, available-for-sale financial instruments, held-to-maturity financial assets and investment in debt securities with no active market. If no quoted market prices exist for certain financial instruments, the fair value of such instruments has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Bank and its subsidiaries use discount rates equal to the prevailing rates of return for financial instruments with similar characteristics.

   (3) Discounts and loans, deposits and principals received from the sale of structured products are classified as interest-bearing financial instruments. Thus, their face value is equivalent to their fair value.

       The face value of delinquent accounts deducted from allowance for doubtful accounts is adopted as fair value.

   (4) Fair value of financial debentures payable is based on quoted market price. If quoted market price is not available, pricing models are utilized to assess the fair value of such instruments.

   (5) If there is a quoted market price in an active market, the quoted market price of derivative financial instruments is regarded as fair value. Otherwise, if the market for a derivative financial instrument is not active, the Bank and its subsidiaries assess fair value by using pricing models.

   (6) The Bank adopts the exchange rate and market interest rate provided by Thomson Reuters' system to evaluate the fair value of forward, currency swap, interest rate swap and cross currency swap. The average price or closing price is used to figure the fair value of each contract.

3. The fair values of the Bank's financial assets or liabilities determined by quoted market price are classified as level 1 or pricing models are classified as level 2 and 3 are summarized as following:

| | December 31, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | | 1st Level | | 2nd Level | | 3rd Level | |
| Financial instruments measured at fair value item | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Non-derivative financial instruments | | | | | | | | |
| Assets | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| Financial assets for trading | | | | | | | | |
| Bonds | $4,030,538 | $138,745 | $824,388 | $28,378 | $3,206,150 | $110,367 | $- | $- |
| Others | 59,110,475 | 2,034,784 | - | - | 59,110,475 | 2,034,784 | - | - |
| Available-for-sale financial assets | | | | | | | | |
| Stocks | 7,348,855 | 252,973 | 7,348,855 | 252,973 | - | - | - | - |
| Bonds | 48,562,558 | 1,671,689 | 14,259,792 | 490,871 | 34,302,766 | 1,180,818 | - | - |
| Others | 1,770,324 | 60,940 | 1,770,324 | 60,940 | - | - | - | - |
| Other financial assets | | | | | | | | |
| Investments in debts securities with no active market | 424,043,663 | 14,597,028 | - | - | 424,043,663 | 14,597,028 | - | - |
| Derivative financial instruments | | | | | | | | |
| Assets | | | | | | | | |
| Financial assets at fair value through profit or loss | 4,655,954 | 160,274 | - | - | 4,655,954 | 160,274 | - | - |
| Other financial assets | | | | | | | | |
| Derivatives financial assets for hedging | 1,203,138 | 41,416 | - | - | 1,203,138 | 41,416 | - | - |
| Liabilities | | | | | | | | |
| Financial liabilities at fair value through profit or loss | 4,967,738 | 171,006 | - | - | 4,967,738 | 171,006 | - | - |

| | December 31, 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | | 1st Level | | 2nd Level | | 3rd Level | |
| Financial instruments measured at fair value item | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Non-derivative financial instruments | | | | | | | | |
| Assets | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| Financial assets for trading | | | | | | | | |
| Bonds | $1,646,923 | $54,408 | $1,500,970 | $49,586 | $145,953 | $4,822 | $- | $- |
| Others | 14,865,231 | 491,088 | - | - | 14,865,231 | 491,088 | - | - |
| Available-for-sale financial assets | | | | | | | | |
| Stocks | 6,765,923 | 223,519 | 6,765,923 | 223,519 | - | - | - | - |
| Bonds | 39,032,580 | 1,289,481 | 8,243,897 | 272,346 | 30,788,683 | 1,017,135 | - | - |
| Others | 1,524,130 | 50,351 | 1,524,310 | 50,351 | - | - | - | - |
| Other financial assets | | | | | | | | |
| Investments in debts securities with no active market | 425,140,266 | 14,044,938 | - | - | 425,140,266 | 14,044,938 | - | - |
| Derivative financial instruments | | | | | | | | |
| Assets | | | | | | | | |
| Financial assets at fair value through profit or loss | 5,287,567 | 174,680 | 59,156 | 1,954 | 5,228,411 | 172,726 | - | - |
| Other financial assets | | | | | | | | |
| Derivatives financial assets for hedging | 1,438,773 | 47,531 | - | - | 1,438,773 | 47,531 | - | - |
| Liabilities | | | | | | | | |
| Financial liabilities at fair value through profit or loss | 4,835,152 | 159,734 | - | - | 4,835,152 | 159,734 | - | - |

4. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were losses NT$103,341 (US$3,557) and gains NT$3,746 (US$124) for the years ended December 31, 2012 and 2011, respectively.

5. The interest income arising from other than financial assets or liabilities at fair value through profit or loss for the years ended December 31, 2012 and 2011 were NT$34,013,753 (US$1,170,869) and NT$30,362,010 (US$1,003,040), and expenses were NT$13,004,174 (US$447,648) and NT$11,671,977 (US$385,596), respectively.

6. The Bank and its subsidiaries recognized an unrealized gains or losses of NT$1,248,439 (US$42,976) and NT$436,354 (US$14,416) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$924,281 (US$31,817) and NT$1,250,174 (US$41,301) in the income statements, for the years ended December 31, 2012 and 2011, respectively.

7. Information on financial risk

   (1) Market risk

   Market risk is the potential loss arising from adverse movements of market price, such as interest rates, foreign exchange rates and equity securities.

   ① Interest rate risk

   If interest rates are rising, the fair value of the Bank and its subsidiaries' fixed-rate bond investments such as government bonds and corporate bonds may decline.

   ② Foreign exchange risk

   The Bank and its subsidiaries manage foreign exchange risk by matching foreign currency assets and liabilities. The Bank and its subsidiaries trade in currencies and derivative instruments, primarily spot and forward exchange contracts and currency swaps, to manage asset and liability positions and hedge against the Bank and its subsidiaries' commercial positions. As most of foreign currency assets and liabilities are matched, the foreign exchange risk is insignificant.

   ③ Equity securities price risk

   The Bank and its subsidiaries may expose to risk when the price of equity securities, such as stocks, mutual funds and TAIEX Futures and Options, moves in adverse direction.

The Bank adopts many methodologies to manage its market risk. Value-at-risk (VAR) is one of the methodologies. VAR is statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence.

| 2012 | | | | | | |
|---|---|---|---|---|---|---|
| | Average balance | | Maximum balance | | Minimum balance | |
| Factors of market risk | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Interest rate | $611,347 | $21,045 | $876,417 | $30,169 | $457,036 | $15,733 |
| Foreign exchange | 156,656 | 5,393 | 162,280 | 5,586 | 146,608 | 5,047 |
| Equity Securities price | 124,933 | 4,301 | 165,277 | 5,689 | 60,704 | 2,090 |

The Bank enters into a variety of derivatives transactions for both trading and nontrading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage the Bank's exposure to risks and to generate revenues through trading activities. The Bank provides trades derivative instruments on behalf of customers and for its own positions. The Bank provides derivative contracts to address customer demands for customized derivatives and also takes proprietary positions for its own accounts.

④ Market risk factor sensitivity

Market risk factor sensitivity is one of the tools to manage market risk. Market risk factor sensitivities of a position are defined as the change in the value of a position caused by a unit shift in a given market factor. Market risk factor sensitivities include interest rate, foreign exchange rate and equity factor sensitivities.

Market risk factor sensitivity of the Bank

| | December 31, 2012 | |
|---|---|---|
| | NTD | USD |
| Foreign exchange rate factor sensitivity (FX Delta) | | |
| USD+1% | $417,124 | $14,359 |
| HKD+1% | 3,042 | 105 |
| JPY+1% | (1) | - |
| NTD+1% | (464,332) | (15,984) |
| Interest rate factor sensitivity (PVBP) | | |
| Yield curves (USD) parallel shift+1bp | (18,376) | (633) |
| Yield curves (HKD) parallel shift+1bp | (30) | (1) |
| Yield curves (JPY) parallel shift+1bp | (1) | - |
| Yield curves (NTD) parallel shift+1bp | (9,144) | (315) |
| Equity securities price factor sensitivity (Equity Delta) | 68,397 | 2,354 |

Foreign exchange rate factor sensitivities ("FX delta") represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuation.

Interest rate factor sensitivities (the present value of one basis point, or "PVBP") represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. The Bank's interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

Equity securities price factor sensitivities ("Equity delta") represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying stocks prices fluctuation. The Bank's equity portfolios include stocks and equity index options.

⑤ Stress testing of the Bank

| Stress Test | | | |
|---|---|---|---|
| Market/ Product | Scenarios | December 31, 2012 | |
| | | NT$ | US$ |
| Stock Market | Major Stock Exchanges +15% | $1,025,960 | $35,317 |
| | Major Stock Exchanges -15% | (1,025,960) | (35,317) |
| Interest Rate/Bond Market | Major Interest Rate + 100bp | (2,821,676) | (97,132) |
| | Major Interest Rate - 100bp | 2,496,083 | 85,924 |
| Foreign Exchange Market | Major Currencies +3% | 1,450,437 | 49,929 |
| | Major Currencies -3% | (1,365,947) | (47,021) |
| Composite | Major Stock Exchanges -15% | (2,397,199) | (82,520) |
| | Major Interest Rate + 100bp | | |
| | Major Currencies +3% | | |

(2) Credit risk

Credit risk represents the risk of loss that the Bank and its subsidiaries would incur if counterparty fails to perform the Bank and its subsidiaries' contractual obligations.

To centralize risk management functions currently handled by different departments, the Bank's board of directors resolved that a risk management department would be established to manage the credit risk. The objectives of credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balance loan portfolio. The Bank's board of directors sets the counterparty credit limits, which are then implemented by credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. The Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectibility of those portfolios.

The Bank and its subsidiaries maintain a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and the Bank and its subsidiaries retain the legal right to foreclose on or liquidate the collateral.

① Information on concentrations of credit risk

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Carrying value | | Maximum credit risk exposed amount | |
| Financial assets | NT$ | US$ | NT$ | US$ |
| Non-derivative financial instruments of the Bank and its subsidiaries | | | | |
| Financial assets at fair value through profit or loss | $63,281,932 | $2,178,380 | $63,281,932 | $2,178,380 |
| Available-for-sale financial assets | 58,449,929 | 2,012,046 | 58,449,929 | 2,012,046 |
| Held-to-maturity financial assets and investments in debt securities with no active market | 445,712,637 | 15,342,948 | 445,712,637 | 15,342,948 |
| Other financial assets-financial assets carried at cost | 3,309,393 | 113,920 | 3,309,393 | 113,920 |
| Others | 1,199,326,803 | 41,284,916 | 1,199,326,803 | 41,284,916 |
| Guarantees on duties and contracts | - | - | 12,994,733 | 447,323 |
| Unused commercial letters of credit | - | - | 4,953,767 | 170,526 |
| Irrevocable loan commitments | - | - | 34,415,264 | 1,184,691 |
| Credit card line commitments | - | - | 295,794,164 | 10,182,243 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Carrying value | | Maximum credit risk exposed amount | |
| Financial assets | NT$ | US$ | NT$ | US$ |
| Derivative financial instruments of the Bank | | | | |
| Forward | $553,680 | $19,060 | $553,680 | $19,060 |
| Non-delivery forward | 245,801 | 8,461 | 245,801 | 8,461 |
| Currency swap | 1,735,384 | 59,738 | 1,735,384 | 59,738 |
| Interest rate swap | 2,707,170 | 93,190 | 2,707,170 | 93,190 |
| Cross currency swap | 132,380 | 4,557 | 132,380 | 4,557 |
| Options | 484,616 | 16,682 | 484,616 | 16,682 |
| Futures | 61 | 2 | 61 | 2 |

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Carrying value | | Maximum credit risk exposed amount | |
| Financial assets | NT$ | US$ | NT$ | US$ |
| Non-derivative financial instruments of the Bank and its subsidiaries | | | | |
| Financial assets at fair value through profit or loss | $16,626,542 | $549,275 | $16,626,542 | 549,275 |
| Available-for-sale financial assets | 47,839,435 | 1,580,424 | 47,839,435 | 1,580,424 |
| Held-to-maturity financial assets and investments in debt securities with no active market | 444,487,117 | 14,684,081 | 444,487,117 | 14,684,081 |
| Other financial assets-financial assets carried at cost | 3,396,590 | 112,210 | 3,396,590 | 112,210 |
| Others | 1,181,491,073 | 39,031,750 | 1,181,491,073 | 39,031,750 |
| Guarantees on duties and contracts | - | - | 13,888,777 | 458,829 |
| Unused commercial letters of credit | - | - | 5,477,941 | 180,970 |
| Irrevocable loan commitments | - | - | 51,897,159 | 1,714,475 |
| Credit card line commitments | - | - | 282,315,962 | 9,326,593 |
| Derivative financial instruments of the Bank | | | | |
| Forward | 2,290,792 | 75,679 | 2,290,792 | 75,679 |
| Non-delivery forward | 68,302 | 2,256 | 68,302 | 2,256 |
| Currency swap | 522,734 | 17,269 | 522,734 | 17,269 |
| Interest rate swap | 3,218,010 | 106,310 | 3,218,010 | 106,310 |
| Cross currency swap | 304,684 | 10,065 | 304,684 | 10,065 |
| Options | 321,818 | 10,632 | 321,818 | 10,632 |

② The Bank and its subsidiaries do not believe it has high levels of credit risk concentration with regard to any single customer or transaction. However, the Bank and its subsidiaries are likely to be exposed to regional or industry concentration risk. The information of concentration of credit risk are as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Loans, customers' liabilities under acceptances, bills purchased and guarantees account | | | | |
| Industry type | | | | |
| Manufacturing | $125,610,955 | $4,323,957 | $138,134,019 | $4,563,397 |
| Financial institutions and insurance | 29,912,516 | 1,029,691 | 31,290,029 | 1,033,697 |
| Leasing and real estate | 83,834,530 | 2,885,870 | 90,742,485 | 2,997,769 |
| Individuals | 492,107,196 | 16,940,007 | 484,825,562 | 16,016,702 |
| Others | 298,671,240 | 10,281,282 | 280,810,821 | 9,276,869 |
| Total | 1,030,136,437 | 35,460,807 | 1,025,802,916 | 33,888,434 |
| Valuation allowance | (13,408,751) | (461,575) | (9,608,648) | (317,431) |
| Maximum credit risk exposed | $1,016,727,686 | $34,999,232 | $1,016,194,268 | $33,571,003 |
| Geographic Region | | | | |
| Domestic | $890,480,069 | $30,653,359 | $891,970,478 | $29,467,145 |
| South East Asia | 55,179,868 | 1,899,479 | 43,909,725 | 1,450,602 |
| North East Asia | 694,753 | 23,916 | 851,735 | 28,138 |
| America | 22,560,687 | 776,616 | 15,206,114 | 502,349 |
| Others | 61,221,060 | 2,107,437 | 73,864,864 | 2,440,200 |
| Total | 1,030,136,437 | 35,460,807 | 1,025,802,916 | 33,888,434 |
| Valuation allowance | (13,408,751) | (461,575) | (9,608,648) | (317,431) |
| Maximum credit risk exposed | $1,016,727,686 | $34,999,232 | $1,016,194,268 | $33,571,003 |

(3) Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations.

Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Bank and its subsidiaries believe they can generate within that period. As part of our liquidity risk management, the Bank and its subsidiaries focus on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

The assets and liabilities management committees of the Bank and its subsidiaries are responsible for overall liquidity risk management. The liquidity policy focuses on cash flow management, interbank funding capacity and the maintenance of sufficient liquid assets. The treasury department is responsible for daily operation and monitoring. The primary tools for monitoring liquidity include measurement of liquidity risk, analysis of interest rate sensitivity and scenario simulation, and continuous contingency planning. The Bank and its subsidiaries manage liquidity risks across all classes of assets and liabilities with the goal that even under adverse conditions.

The liquidity risk rate was 32.57%. Capital and working capital of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

(4) Cash flow risk and fair value risk from interest rate fluctuation

The Bank's financial debentures payable was matched with the interest rate swap and currency swap contracts which had been transferred from fixed rate to floating rate.

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of December 31, 2012, there is no significant change in these dates.

As of December 31, 2012 and 2011, respectively, the effective interest rates of financial instruments held and issued by the Bank and its subsidiaries are classified as follows:

| | Effective interest rate (%) | |
|---|---|---|
| Financial instruments | December 31, 2012 | December 31, 2011 |
| Available-for-sale financial assets | | |
| Bonds | 0-13.1 | 0.53-13.1 |
| Overseas financial instruments | 0-9.3714 | 0-8.1290 |
| Held-to-maturity financial assets | | |
| Bonds | 2.2292-18.13 | 2.2292-18 |
| Overseas financial instruments | 0-8.2501 | 0-20.7123 |
| Investments in debt securities with no active market | | |
| Preferred stocks | 5 | 5 |
| Certificates of deposit | 0.388-0.93 | 0.858-1.065 |
| Overseas financial instruments | 0-5.15 | 0-5.15 |
| Financial debentures payable | 1.48-5.593 | 1.65-2.95 |

8. Fair value hedge

The interest rate swap is used to hedge interest rate fluctuations of financial debentures payable with fixed rate:

| | Hedging instruments | | | | |
|---|---|---|---|---|---|
| | | Financial assets fair value | | | |
| | Derivative designated as | December 31, 2012 | | December 31, 2011 | |
| Hedged item | hedging instruments | NT$ | US$ | NT$ | US$ |
| Financial debentures payable | Interest rate swap | $1,203,138 | $41,416 | $1,438,773 | $47,531 |

The hedge is regarded as highly effective, at inception and throughout the life of the hedge, the Bank can expect changes in the fair value of the hedged item that are attributable to the hedged risk to be almost fully offset by the changes in the fair value of the hedging instrument and actual results are within a range of 80-125 percent.

9. The significant portfolio of foreign currency financial assets and liabilities are as follows:

| | December 31, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Foreign Currency | Exchange Rage | NTD | Foreign Currency | Exchange Rage | NTD |
| Financial Assets | | | | | | |
| Monetary Items | | | | | | |
| USD | $6,041,510 | 29.1360 | $176,025,435 | $5,841,400 | 30.2900 | $176,936,006 |
| HKD | 3,600,008 | 3.7586 | 13,530,990 | 3,476,868 | 3.8985 | 13,554,570 |
| CNY | 1,304,373 | 4.6794 | 6,103,683 | 582,973 | 4.8081 | 2,802,992 |
| Financial liabilities | | | | | | |
| Monetary Items | | | | | | |
| USD | 6,740,878 | 29.1360 | 196,402,221 | 5,556,337 | 30.2900 | 168,301,448 |
| CNY | 1,774,508 | 4.6794 | 8,303,633 | 697,862 | 4.8081 | 3,355,390 |
| AUD | 183,671 | 30.2650 | 5,558,803 | 161,431 | 30.7519 | 4,964,310 |

Note: Disclose the foreign currency part from functional currency, which transferred (rather than original bargain currency).

## XI. Operating segment information

For management purpose, the Bank and its subsidiaries are organized into business units based on products and services and have four reportable segments as follows:

1. Corporate banking segment - syndication loans, large-sized loans, group loans and general loans, etc.

2. Retail banking segment - deposits and consumer loans, foreign exchange services, endorsement guarantees business, note discounting, disbursements and receipts, rental safe deposit boxes, credit card-related products, and trust business, etc.

3. Offshore banking segment - international banking department, offshore banking unit, overseas branches and representative office, etc.

4. Other segments - these parts contain the Bank's assets, liabilities, revenues and expenses that cannot attribute to or allocate reasonably to certain operating segment.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessments. Segment performance is evaluated based on operating profit or loss. Segments' accounting policies are the same with the Note II mentioned above.

(1)

| January 1- December 31, 2012 | Corporate Banking Segment | | Retail Banking Segment | | Offshore Banking Segment | | Other Segment | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Net interest income (from external customer) | $7,267,891 | $250,186 | $3,925,847 | $135,141 | $6,375,679 | $219,473 | $3,583,641 | $123,361 | $21,153,058 | $728,161 |
| Inter-segment revenues | $(3,728,114) | $(128,335) | $8,641,468 | $297,469 | $(708,881) | $(24,402) | $(4,204,473) | $(144,732) | $- | $- |
| Segment net income | $2,635,413 | $90,720 | $9,348,265 | $321,799 | $5,739,890 | $197,587 | $(2,853,630) | $(98,232) | $14,869,938 | $511,874 |
| Income tax expense | | | | | | | | | (1,601,977) | (55,146) |
| Net income after income taxes | | | | | | | | | $13,267,961 | $456,728 |

| January 1- December 31, 2011 | Corporate Banking Segment | | Retail Banking Segment | | Offshore Banking Segment | | Other Segment | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Net interest income (from external customer) | $6,985,245 | $230,765 | $4,670,035 | $154,279 | $3,529,790 | $116,610 | $3,533,791 | $116,742 | $18,718,861 | $618,396 |
| Inter-segment revenues | $(3,267,688) | $(107,951) | $7,275,483 | $240,353 | $(256,974) | $(8,490) | $(3,750,821) | $(123,912) | $- | $- |
| Segment net income | $3,803,368 | $125,648 | $8,225,699 | $271,744 | $3,389,831 | $111,987 | $(2,246,805) | $(74,225) | $13,172,093 | $435,154 |
| Income tax expense | | | | | | | | | (1,743,672) | (57,604) |
| Net income after income taxes | | | | | | | | | $11,428,421 | $377,550 |

(2) Geographical information – Revenues from external customers:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ |
| Taiwan | $18,499,313 | $636,810 | $16,585,124 | $547,906 |
| Other countries | 2,653,745 | 91,351 | 2,133,737 | 70,490 |
| Total | $21,153,058 | $728,161 | $18,718,861 | $618,396 |

Note:

1. No revenue from transactions with a single external customer amounted to 10% or more of the Bank and its subsidiaries' total revenue during the years ended December 31, 2012 and 2011.

2. Operating segments' profit are measured at pre-tax income basis, the income taxes are not allocated to reporting segments for the purpose of making decisions about resource allocation and performance assessment.

Pursuant to Interpretation 2010-151 issued by the Accounting Research and Development Foundation, the Bank and its subsidiaries' measure amount of the assets and liabilities mainly provide the average of deposits and loans, the disclosed measure amounts of assets are zero.

XII. Others

1. Average balances and average interest rates of interest-earning assets and interest-bearing liabilities

(1) The Bank

| | 2012 | | |
|---|---|---|---|
| | Average balance | | Average rate |
| | NT$ | US$ | (%) |
| Assets | | | |
| Due from the Central Bank | $40,001,811 | $1,376,999 | 0.56% |
| Time certificates, discounted bills and others | 412,386,678 | 14,195,755 | 0.87% |
| Due from commercial banks and call loans to banks | 67,458,998 | 2,322,169 | 1.55% |
| Discounts and loans | 996,669,080 | 34,308,746 | 2.08% |
| Bills purchased | 2,573 | 89 | 3.18% |
| Bonds | 88,690,391 | 3,053,026 | 3.44% |
| Receivables-credit card revolving balance | 15,493,645 | 533,344 | 13.61% |
| Securities purchased under agreements to resell | 4,032,266 | 138,804 | 0.74% |

| | 2012 | | |
|---|---|---|---|
| | Average balance | | Average rate |
| | NT$ | US$ | (%) |
| Liabilities | | | |
| Due to banks | $57,050,006 | $1,963,856 | 0.90% |
| Demand deposits | 235,211,643 | 8,096,786 | 0.13% |
| Saving deposits | 852,912,571 | 29,360,157 | 0.60% |
| Time deposits | 388,240,448 | 13,364,559 | 1.04% |
| Negotiable certificates of deposit | 473,974 | 16,316 | 0.46% |
| Securities sold under agreements to repurchase | 18,256,300 | 628,444 | 0.52% |
| Financial debentures | 36,419,553 | 1,253,685 | 2.94% |
| Funds borrowed from the Central Bank and other banks | 1,416,851 | 48,773 | 0.59% |
| Principals received from the sale of structured products | 17,222,210 | 592,847 | 1.52% |

| | 2011 | | |
|---|---|---|---|
| | Average balance | | Average rate |
| | NT$ | US$ | (%) |
| Assets | | | |
| Due from the Central Bank | $37,950,024 | $1,253,717 | 0.51% |
| Time certificates, discounted bills and others | 420,484,393 | 13,891,126 | 0.82% |
| Due from commercial banks and call loans to banks | 25,699,480 | 849,008 | 0.91% |
| Discounts and loans | 937,219,060 | 30,961,978 | 1.91% |
| Bills purchased | 3,162 | 104 | 2.88% |
| Bonds and beneficiary certificates | 62,182,917 | 2,054,275 | 2.96% |
| Receivables-credit card revolving balance | 16,310,779 | 538,843 | 13.79% |
| Securities purchased under agreements to resell | 8,363,694 | 276,303 | 0.50% |
| Liabilities | | | |
| Due to banks | 45,789,232 | 1,512,693 | 0.98% |
| Demand deposits | 220,305,917 | 7,278,028 | 0.12% |
| Saving deposits | 825,249,852 | 27,262,962 | 0.55% |
| Time deposits | 340,776,790 | 11,257,905 | 0.95% |
| Negotiable certificates of deposit | 1,332,973 | 44,036 | 0.25% |
| Securities sold under agreements to repurchase | 14,784,366 | 488,416 | 0.39% |
| Financial debentures | 31,593,988 | 1,043,739 | 3.22% |
| Funds borrowed from the Central Bank and other banks | 1,635,483 | 54,030 | 0.87% |
| Principals received from the sale of structured products | 9,566,930 | 316,053 | 1.29% |

(2) Indovina Bank

| | 2012 | | |
|---|---|---|---|
| | Average balance | | Average rate |
| | NT$ | US$ | (%) |
| Assets | | | |
| Due from the Central Bank | $774,341 | $26,655 | 0.45% |
| Due from commercial banks and call loans to banks | 11,794,793 | 406,017 | 5.48% |
| Discounts and loans | 15,525,791 | 534,451 | 9.21% |
| Bonds | 1,623,161 | 55,875 | 16.88% |
| Liabilities | | | |
| Due to banks | 113,535 | 3,908 | 1.46% |
| Call loans from banks | 5,350,661 | 184,188 | 6.59% |
| Demand deposits | 5,670,810 | 195,209 | 0.66% |
| Time deposits | 9,774,259 | 336,463 | 9.04% |
| Financial debentures | 1,905,729 | 65,602 | 16.51% |

| | 2011 | | |
|---|---|---|---|
| | Average balance | | Average rate |
| | NT$ | US$ | (%) |
| Assets | | | |
| Due from the Central Bank | $693,117 | $22,898 | 0.49% |
| Due from commercial banks and call loans to banks | 9,271,052 | 306,279 | 9.43% |
| Discounts and loans | 18,825,449 | 621,918 | 10.81% |
| Bonds | 1,586,108 | 52,399 | 14.86% |
| Securities purchased under agreements to resell | 176,026 | 5,815 | 2.46% |
| Liabilities | | | |
| Due to banks | 8,701 | 287 | 0.40% |
| Call loans from banks | 7,154,417 | 236,353 | 9.41% |
| Demand deposits | 6,525,581 | 215,579 | 1.05% |
| Time deposits | 11,476,796 | 379,148 | 11.65% |

2. Regulatory capital ratio

   Pursuant to the regulations of the Banking Law, the ratio of a bank's eligible capital to its risk-weighted assets may not be less than the specific ratio; if such ratio is less than the prescribed ratio, the Bank's ability to distribute cash earnings or repurchase its shares may be restricted by the relevant regulatory authority in charge.

   As of December 31, 2012 and 2011, the ratio of the Bank and its subsidiaries' eligible capital to its consolidated risk-weighted assets were 12.62% and 12.03%, respectively.

3. Implementation of cross-selling marketing strategies implemented between the Bank, Cathay Financial Holding Co., Ltd., and its subsidiaries

   The Bank has entered into cross-selling marketing contracts with Cathay Life Insurance Co., Ltd., Cathay Century Insurance Co., Ltd. and Cathay Securities Corp. The contracts cover joint usage of operation sites and facilities as well as cross-selling marketing personnel. Remuneration apportionment and expenses allocation for cross-selling marketing personnel follow the provisions under the "Cathay Financial Group Scope of Cross-selling Marketing and Rules for Reward".

   The Bank has entered into cooperative contracts with Cathay Financial Holding Co., Ltd., Cathay Life Insurance Co., Ltd., Cathay Century Insurance Co., Ltd., and Cathay Securities Corp. for the joint usage of information equipment and the development, operation, maintenance and management of information systems. Calculation methodologies for expenses allocation have been established.

4. In accordance with Article 17 of the Trust Laws, the assets and liabilities managed under the Bank's trust are as follows:

## Balance Sheet Based on Trust
## December 31, 2012

| Trust Assets | NT$ | US$ | Trust Liabilities | NT$ | US$ |
|---|---|---|---|---|---|
| Bank deposits | $9,884,730 | $340,266 | Custody securities payable | $130,206,039 | $4,482,136 |
| Bonds | 138,012,675 | 4,750,867 | Other liabilities | 56 | 2 |
| Common stock | 2,134,850 | 73,489 | Trust capital | 344,689,275 | 11,865,379 |
| Mutual funds | 171,649,666 | 5,908,766 | Accumulated earnings | | |
| Insurance | 2,088,083 | 71,879 | Earnings distribution | (214,655) | (7,389) |
| Real estate | | | Net income | 230,347 | 7,929 |
| Land | 20,711,177 | 712,949 | Accumulated deficit | (200,884) | (6,915) |
| Buildings, net | 34,132 | 1,175 | Net Assets | | |
| Custody securities | 130,206,039 | 4,482,136 | Capital account | 10,688 | 368 |
| | | | Distributable revenue | 486 | 17 |
| Total | $474,721,352 | $16,341,527 | Total | $474,721,352 | $16,341,527 |

## Balance Sheet Based on Trust
## December 31, 2011

| Trust Assets | NT$ | US$ | Trust Liabilities | NT$ | US$ |
|---|---|---|---|---|---|
| Bank deposits | $7,444,761 | $245,945 | Payables | $2,456 | $81 |
| Bonds | 168,429,991 | 5,564,255 | Custody securities payable | 129,943,814 | 4,292,825 |
| Common stock | 2,277,822 | 75,250 | Other liabilities | 56 | 2 |
| Mutual funds | 153,225,914 | 5,061,973 | Trust capital | 350,673,839 | 11,584,864 |
| Insurance | 1,900,978 | 62,801 | Accumulated earnings | | |
| Receivables | 24 | 1 | Earnings distribution | (190,107) | (6,280) |
| Real estate | | | Net income | 157,095 | 5,190 |
| Land | 17,006,964 | 561,842 | Accumulated deficit | (167,959) | (5,549) |
| Buildings, net | 33,603 | 1,110 | Net Assets | | |
| Custody securities | 129,943,814 | 4,292,825 | Capital account | 254,972 | 8,423 |
| Other assets | 410,868 | 13,573 | Distributable revenue | 573 | 19 |
| Total | $480,674,739 | $15,879,575 | Total | $480,674,739 | $15,879,575 |

## Income Statements Based on Trust

| Items | 2012 NT$ | 2012 US$ | 2011 NT$ | 2011 US$ |
|---|---|---|---|---|
| Trust revenue | | | | |
| Interest income | $42,608 | $1,467 | $28,142 | $930 |
| Rental income | 336 | 11 | 336 | 11 |
| Cash dividend income | 111,222 | 3,828 | 140,420 | 4,639 |
| Investment income-stock | 3,069 | 106 | 5,738 | 189 |
| Investment income-funds | 17,078 | 588 | 7,239 | 239 |
| Investment income- trust of loans and related securities interests | 75,729 | 2,607 | - | - |
| Subtotal | 250,042 | 8,607 | 181,875 | 6,008 |
| Trust expense | | | | |
| Management fee | 10,256 | 353 | 10,330 | 341 |
| Supervisor fee | 249 | 9 | 233 | 8 |
| Taxes | 2,360 | 81 | 2,375 | 78 |
| Processing fee | 858 | 30 | 861 | 28 |
| Service fee | 430 | 15 | 350 | 12 |
| Investment loss-Bonds | - | - | 33 | 1 |
| Investment loss-stock | 2,134 | 73 | 1,039 | 34 |
| Investment loss-funds | 3,343 | 115 | 9,710 | 321 |
| Others | 5 | - | 112 | 4 |
| Subtotal | 19,635 | 676 | 25,043 | 827 |
| Income equalization | (60) | (2) | 263 | 9 |
| Net income before tax | 230,347 | 7,929 | 157,095 | 5,190 |
| Income tax expense | - | - | - | - |
| Net income | $230,347 | $7,929 | $157,095 | $5,190 |

## Details of Trust Properties

| Items | December 31, 2012 NT$ | December 31, 2012 US$ | December 31, 2011 NT$ | December 31, 2011 US$ |
|---|---|---|---|---|
| Bank deposits | $9,884,730 | $340,266 | $7,444,761 | $245,945 |
| Bonds | 138,012,675 | 4,750,867 | 168,429,991 | 5,564,255 |
| Common stock | 2,134,850 | 73,489 | 2,277,822 | 75,250 |
| Mutual funds | 171,649,666 | 5,908,766 | 153,225,914 | 5,061,973 |
| Insurance | 2,088,083 | 71,879 | 1,900,978 | 62,801 |
| Real estate | | | | |
| Land | 20,711,177 | 712,949 | 17,006,964 | 561,842 |
| Buildings, net | 34,132 | 1,175 | 33,603 | 1,110 |
| Custody Securities | 130,206,039 | 4,482,136 | 129,943,814 | 4,292,825 |
| Other assets | - | - | 410,868 | 13,573 |
| Total | $474,721,352 | $16,341,527 | $480,674,715 | $15,879,574 |

5. The Bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of December 31, 2012 and 2011 are as follows:

| Items | December 31, 2012 | |
|---|---|---|
| | NT$ | US$ |
| Special trust of money that invest in foreign securities | $259,637,181 | $8,937,596 |
| Special trust of money that invest in domestic securities | 49,589,176 | 1,707,028 |
| Trust of money-custody securities | 130,206,039 | 4,482,136 |
| Trust of real estate | 22,295,109 | 767,474 |
| Trust of real estate price | 3,338,306 | 114,916 |
| Trust of insurance claims | 105,607 | 3,635 |
| Personal and corporate trust | 5,196,831 | 178,893 |
| Trust of business employee's savings | 2,547,184 | 87,683 |
| Trust of securities | 1,795,343 | 61,802 |
| Collective investment trust funds | 10,576 | 364 |
| Total | $474,721,352 | $16,341,527 |

| Items | December 31, 2011 | |
|---|---|---|
| | NT$ | US$ |
| Special trust of money that invest in foreign securities | $276,508,740 | $9,134,745 |
| Special trust of money that invest in domestic securities | 44,295,036 | 1,463,331 |
| Trust of money-custody securities | 129,943,814 | 4,292,825 |
| Trust of real estate | 18,133,679 | 599,064 |
| Trust of real estate price | 1,450,049 | 47,904 |
| Trust of insurance claims | 86,352 | 2,853 |
| Personal and corporate trust | 5,074,897 | 167,654 |
| Trust of business employee's savings | 2,605,498 | 86,075 |
| Trust of securities | 1,907,842 | 63,028 |
| Collective investment trust funds | 257,914 | 8,521 |
| Trust of loans and related securities interests | 410,918 | 13,575 |
| Total | $480,674,739 | $15,879,575 |

6. The Financial Supervisory Commission ("FSC") requires Domestic Banks to prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations committee as recognized by the FSC (collectively referred to as "IFRSs"), and the Regulations Governing the Preparation of Financial Reports by Public Banks, starting 2013. Under Rule No. 0990004943 issued by the FSC on February 2, 2010, the Bank makes the pre-disclosures on the adoption of IFRSs as follows:

(1) The main contents of the plan to adopt IFRSs and the current status:

The Bank has set up a project team and made a plan to adopt IFRSs. Leading the implementation of this plan is the financial manager. The main contents of the plan, estimated completion schedule and status of execution were as follows:

| Contents of Plan | Responsible Department or Personnel | Status of Execution |
|---|---|---|
| 1. Assess stage: 2010/1/1~2011/12/31 | | |
| ◎ Make a plan to adopt IFRSs and establish a project team | Accounting department | Finished |
| ◎Proceed initial internal training | Accounting department and other authorized departments | Finished |
| ◎Identify differences between the existing accounting policies and IFRSs | Accounting department | Finished |
| ◎Identify the adjustment required for existing accounting policies | Accounting department | Finished |
| ◎Select voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards” and assess the impact of these exemptions | Accounting department | Finished |
| ◎Identify the adjustments required for IT system and internal controls | IT department and Risk management department | Finished |
| 2. Prepare stage:2011/1/1~2012/12/31 | | |
| ◎Finalize the accounting policies under IFRSs | Accounting department | Finished |
| ◎Finalize the selection of voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards | Accounting department | Finished |
| ◎Finalize adjustments to the internal control (including financial statements process and the associated IT system) | IT department and Risk management department | Finished |
| ◎Proceed advanced internal training | Accounting department and other authorized departments | Finished |
| 3. Implementation stage:2012/1/1~2013/12/31 | | |
| ◎Test the operation of information system | IT department | Finished |
| ◎Prepare opening IFRS balance sheet and comparative financial statements | Accounting department | Finished |
| ◎Prepare IFRS financial statements | Accounting department | In progress |

(2) Material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and the Regulations Governing the Preparation of Financial Reports by Public Banks and their impacts on the Bank are described in the table below:

The Bank and its subsidiaries assess the material differences in accounting polices based on the IFRSs as recognized by the FSC and the Regulations Governing the Preparation of Financial Reports by Public Banks expected to become effective in 2013. However these assessments may be changed as the FSC may recognize different versions of IFRSs or amend the Regulations Governing the Preparation of Financial Reports by Public Banks in the future. Furthermore, the Banks and its subsidiaries have decided the accounting policies to be adopted under IFRSs based on the current circumstances, should circumstances change in the future, the accounting policies to be adopted may change accordingly. The material differences in accounting policies described in the table below may not result in any adjustment on the date of transition to IFRSs, due to the voluntary exemptions selected under IFRS 1 “First-time Adoption of International Financial Reporting Standards”.

| Accounting Issues | Description of differences |
|---|---|
| Fixed assets | Properties held to be leased out or for long-term capital appreciation are currently classified under fixed assets, as there is no clear guidance under ROC GAAP. However under the requirements of IAS 40 “Investment Property”, properties which meet the definition of investment property should be classified as such. |
| Lease accounting | The Bank recognizes rental expense based on the regulation of leasing contracts. However, under the requirement of IAS 17 “Leases”, operating leases should be calculated under straight line basis and recognized as revenue or expense during the lease. |
| Employee benefits | The Bank has selected a rate of return on relatively high-safety fixed-income investment as the discount rate under ROC GAAP. However under the requirements of IAS 19, the rate used to discount post-employment benefits obligations shall be determined by reference to market yields on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds shall be used. |
| | Under the requirements of ROC GAAP, minimum pension liability is to be recognized for the excess of the accumulated benefit obligation over the pension plan assets. There is no such requirement under IAS 19. |

| Accounting Issues | Description of differences |
|---|---|
| Employee benefits | Under the requirements of ROC GAAP, the unrecognized transitional net assets (or net benefit obligation) should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. There is no such requirement under IAS 19. |
| Other employee benefits (employee preferential interest rate deposits) | According to internal regulation of the Bank or hiring agreement, the excess interest of retiring employee preferential interest rate deposits is adapted to IAS 19 "Employee Benefit" once the employee is retired. |
| Customer loyalty Programmes | The Bank recognizes the fair value of all considerations received or receivable as revenue at the time of sale, and estimates the cost and related liabilities resulting from the awards given. However under the requirements of IFRIC 13 "Customer Loyalty Programmes", the fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale; the consideration allocated to the award credits should be deferred and only recognized as revenue when award credit are redeemed and the Bank fulfills its obligations to supply awards. |
| Regular way purchase or sale of a financial asset | The bond trading is recognized on the settlement date under the Bank's regular way purchase and sale. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Therefore, the Bank replaces the settlement date accounting with the trade date accounting. |

(3) The preliminary assessment on the monetary impacts of the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and the Regulations Governing the Preparation of Financial Reports by Public Bank are as follows：

① Reconciliation of the balance sheet as at January 1, 2012:

| | ROC GAAP | | Adjustments | | IFRSs | |
|---|---|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Other assets (A、C、D) | $1,738,125,272 | $59,832,195 | $857,862 | $29,531 | $1,738,983,134 | $59,861,726 |
| Total assets | 1,738,125,272 | 59,832,195 | 857,862 | 29,531 | 1,738,983,134 | 59,861,726 |
| | | | | | | |
| Payables (B、D) | 21,149,593 | 728,041 | (771,648) | (26,563) | 20,377,945 | 701,478 |
| Provision (A、D) | - | - | 2,075,802 | 71,456 | 2,075,802 | 71,456 |
| Other liabilities (B、C、D) | 1,615,648,405 | 55,616,124 | 947,085 | 32,602 | 1,616,595,490 | 55,648,726 |
| Total liabilities | 1,636,797,998 | 56,344,165 | 2,251,239 | 77,495 | 1,639,049,237 | 56,421,660 |
| | | | | | | |
| Common Stock | 52,277,026 | 1,799,554 | - | - | 52,277,026 | 1,799,554 |
| Capital Reserves | 15,213,292 | 523,693 | - | - | 15,213,292 | 523,693 |
| Retained Earnings (A、B、C) | 30,452,058 | 1,048,264 | (2,194,528) | (75,543) | 28,257,530 | 972,721 |
| Other Stockholders' Equity ( A、D) | 235,727 | 8,114 | 801,151 | 27,579 | 1,036,878 | 35,693 |
| Minority Interset | 3,149,171 | 108,405 | - | - | 3,149,171 | 108,405 |
| Stockholders' Equity | 101,327,274 | 3,488,030 | (1,393,377) | (46,757) | 99,933,897 | 3,440,066 |

A. The Bank adopts IAS 19, "Employee benefits", the relevant adjustment resulted in a decrease of the deferred pension cost by NT$44,802 (US$1,542), a reverse of the net loss not recognized as net pension cost by NT$801,151 (US$27,578), an increase of the provisions by NT$1,204,956 (US$41,479) and a corresponding decrease of retained earnings of NT$2,050,909 (US$70,599).

B. The Bank adopt IFRIC 13 "Customer Loyalty Programmes", the relevant adjustment resulted in a decrease of the accrued expenses by NT$512,271 (US$17,634), an increase of the deferred income by NT$1,105,371 (US$38,051) and a corresponding decrease of retained earnings of NT$593,100 (US$20,417).

C. In summary, the Bank adopt IAS 12 "Income Tax", the deferred income tax liabilities and deferred income tax assets were increased by NT$87,086 (US$2,998) and NT$536,567 (US$18,471), respectively, and resulted in an increase of retained earnings of NT$449,481 (US$15,473).

D. Other explanations are as follows:

(a) The bond trading is recognized on the settlement date under the Bank's regular way purchase and sales. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Therefore, the Bank replaces the settlement date accounting with the trade date accounting.

(b) Certain accounts of the assets and liabilities have been reclassified under IFRSs, as such, there is no significant effect on net shareholders' equity.

(c) In accordance with the Explanatory Letter No. 1010012865 issued by FSC on April 6, 2012, at first-time adoption of IFRSs, an entity shall appropriate a corresponding amount to special reserve same as the IFRS adjustment, in which case an entity elects to use exemption application specified in IFRS 1 and resets unrealized revaluation increment and cumulative translation differences under stockholders' equity to zero, and its retained earnings is being increased accordingly. The Bank does not elect to use exemption under IFRS 1 for its cumulative translation adjustments, therefore, no special reserve was appropriated.

② Reconciliation of the balance sheet as at December 31, 2012:

| | ROC GAAP | | Adjustments | | IFRSs | |
|---|---|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Financial Assets (E) | $576,626,804 | $19,849,460 | $2,196,006 | $75,594 | $578,822,810 | $19,925,054 |
| Other assets (A、D、E) | 1,238,015,774 | 42,616,722 | 929,102 | 31,983 | 1,238,944,876 | 42,648,705 |
| Total assets | 1,814,642,578 | 62,466,182 | 3,125,108 | 107,577 | 1,817,767,686 | 62,573,759 |
| | | | | | | |
| Payables (B、C、E) | 21,342,714 | 734,689 | 810,472 | 27,899 | 22,153,186 | 762,588 |
| Provision(A、E) | - | - | 2,009,384 | 69,170 | 2,009,384 | 69,170 |
| Other liabilities (B、D、E) | 1,687,287,472 | 58,082,185 | 914,364 | 31,476 | 1,688,201,836 | 58,113,661 |
| Total liabilities | 1,708,630,186 | 58,816,874 | 3,734,220 | 128,545 | 1,712,364,406 | 58,945,419 |
| | | | | | | |
| Common Stock | 52,277,026 | 1,799,554 | - | - | 52,277,026 | 1,799,554 |
| Capital Reserves | 15,213,292 | 523,693 | - | - | 15,213,292 | 523,693 |
| Retained Earnings (A、B、C、D、E) | 35,699,786 | 1,228,908 | (2,157,211) | (74,259) | 33,542,575 | 1,154,649 |
| Other Stockholders' Equity(A、D、E) | (144,726) | (4,982) | 1,548,099 | 53,291 | 1,403,373 | 48,309 |
| Minority Interst | 2,967,014 | 102,135 | - | - | 2,967,014 | 102,135 |
| Stockholders' Equity | 106,012,392 | 3,649,308 | (609,112) | (20,968) | 105,403,280 | 3,628,340 |

A. The Bank adopts IAS 19, “Employee benefits”, the relevant adjustment resulted in a decrease the deferred pension cost by NT$5,404 (US$186), a reverse of the net loss not recognized as net pension cost by NT$953,679 (US$32,829), an increase of the provisions by NT$1,025,408 (US$35,298) and a corresponding decrease of retained earnings of NT$1,984,491 (US$68,313).

B. The Bank adopt IFRIC 13 “Customer Loyalty Programmes”, the relevant adjustment resulted in a decrease of the accrued expenses by NT$518,494 (US$17,848), an increase of the deferred income by NT$1,123,325 (US$38,668) and a corresponding decrease of retained earnings of NT$604,831(US$20,820).

C. The Bank adopt IAS 17 “Leases”, the adjustment resulted in an increase of accrued expenses by NT$9,377 (US$323) and a corresponding decrease of retained earnings.

D. In summary, the Bank adopt IAS 12 "Income Tax", the deferred income tax liabilities and deferred income tax assets were increased by NT$88,144 (US$3,034) and NT$529,626 (US$18,231), respectively, and resulted in an increase in retained earnings of NT$441,482 (US$15,197).

E. Other explanations are as follows:

(1) Financial assets include the financial assets at fair value through profit or loss, derivative financial assets for hedging, financial assets carried at cost, available-for-sale financial assets, held-to-maturity financial assets, investment in debt securities with no active market and other financial assets.

(2) The bond trading is recognized on the settlement date under the Bank’s regular way purchase and sales. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Therefore, the Bank replaces the settlement date accounting with the trade date accounting and resulted in an increase of retained earnings by NT$6 (US$0).

(3) Certain accounts of the assets and liabilities have been reclassified under IFRSs, as such, they is no significant effect on net shareholders’ equity.

③ Reconciliation of the income statement for the year ended December 31, 2012:

| | ROC GAAP | | Adjustments | | IFRSs | |
|---|---|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Net interest income(A、E) | $21,153,058 | $728,161 | $131,300 | $4,520 | $21,284,358 | $732,681 |
| Noninterest income(B、E) | 13,424,343 | 462,111 | 238,349 | 8,205 | 13,662,692 | 470,316 |
| Net operating income | 34,577,401 | 1,190,272 | 369,649 | 12,725 | 34,947,050 | 1,202,997 |
| Bad debt expense | (2,126,095) | (73,187) | - | - | (2,126,095) | (73,187) |
| Operating expenses (A、B、C) | (17,581,368) | (605,211) | (211,515) | (7,281) | (17,792,883) | (612,492) |
| Net income before income tax | 14,869,938 | 511,874 | 158,134 | 5,444 | 15,028,072 | 517,318 |
| Income tax expense(D) | (1,601,977) | (55,146) | (120,818) | (4,159) | (1,722,795) | (59,305) |
| Net income after income tax | 13,267,961 | 456,728 | 37,316 | 1,285 | 13,305,277 | 458,013 |
| Attributable to: | | | | | | |
| Equity holders of the parent | 13,068,125 | 449,849 | 37,316 | 1,285 | 13,105,441 | 451,134 |
| Minority interest | 199,836 | 6,879 | - | - | 199,836 | 6,879 |
| Net income after income tax | 13,267,961 | 456,728 | 37,316 | 1,285 | 13,305,277 | 458,013 |

A. The Bank adopts IAS 19, “Employee benefits”, the relevant adjustment resulted in an increase personnel expenses by NT$208,361 (US$7,172) and a decrease of interest expense by NT$274,779 (US$9,459), respectively.

B. The Bank adopt IFRIC 13 “Customer Loyalty Programmes”, the relevant adjustment resulted in a decrease of handling fees income by NT$17,954 (US$618) and a decrease of other general and administrative expense by NT$6,223 (US$214) , respectively.

C. The Bank adopt IAS 17 “Leases”, the adjustment resulted in an increase of rental expenses NT$9,377 (US$323).

D. In summary, the Bank adopt IAS 12 “Income Tax”, the adjustment resulted in an increase the income tax expense by NT$8,000 (US$275).

E. Other explanations are as follows:

(a) The bond trading is recognized on the settlement date under the Bank’s regular way purchase and sales. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Therefore, the Bank replaces the settlement date accounting, with the trade date accounting, and resulted in an decrease of gain on financial assets and liabilities at fair value through profit or loss by NT$3 (US$0) and an increase of realized gain on available-for-sale financial assets by NT$9 (US$0).

(b) Certain accounts of the assets and liabilities have been reclassified under IFRSs, as such, there is no significant effect on net shareholders’ equity.

(4) According to the requirements under IFRS 1, “First-time Adoption of International Financial Reporting Standards”, the bank prepares its first IFRS financial statements based on the effective IFRS standards and makes adjustments retrospectively, except for the optional exemptions and mandatory exemptions under IFRS 1. The optional exemptions selected by the Bank are as follows:

① The Bank has recognized all cumulative actuarial gains and losses directly to retained earnings as at January 1, 2012.

② The Bank has elected to disclose amounts required by paragraph 120A (p) of IAS19 prospectively from January 1, 2012.