COSMOSBANK

2012 ANNUAL REPORT

Contents

Taipei

Letter to Shareholders

Overall Economy

During the first half of 2012, the global economic growth slowed its pace due to the widespread Eurozone crisis, softening economic growth in China and risks associated with the fiscal cliff in the United States. In the second half, however, as several nations announced economic stimulus packages and sustained the investment environment with low interest rates, the world economy saw signs of a gradual recovery while major stock markets were mostly in an uptrend at the end of 2012.

With respect to domestic economy, the global economy during the first half of 2012 weakened the performance of external trade, thereby dragging down private consumption and investment performance. The domestic growth rate dropped from 4.07% in 2011 to 1.26% in 2012. During the second half, as the world economy revisited stability, accompanied by the wave of inventory restocking for Christmas in Europe and the U.S. and the Lunar New Year in China, the momentum for domestic export trading gradually bottomed out from the trough. In the fourth quarter of 2012, the economic growth rate climbed to 3.72% and the economic growth for year 2013 is projected to be 3.59% according to the forecast released by Directorate General of Budget, Accounting and Statistics of Executive Yuan. The overall economic environment has turned relatively positive as compared with 2012.

Business Performance

In 2012, we aimed to "increase diversified core earnings; enlarge balance sheet and income statement." The Bank fine-tuned its risk management and established the "Credit Administration Group" to form a centralized structure of its credit administration departments so as to maintain satisfactory asset quality. On the other hand, we strived for higher core profits and achieved business performance as follows:

1. Consumer Banking: While we continued to develop high-yield products such as cash card and credit card, our new profit driver- "Personal Loan" grew substantially through various marketing campaigns and cross-selling. Our Personal Loan balance as at 2012 year-end reached NT$9 billion and soared by around NT$3.6 billion (+67%) when compared with NT$5.4 billion in 2011. To better interact with customers and increase our credit card market share, we developed value-added functions and leveraged on horizontal alliance to roll out a co-branded EasyCard credit card in collaboration with EasyCard Corporation. At the end of 2012, we launched the Macaroon Credit Card, which created a marketing buzz and helped keep boosting profitable growth of credit card customers and card spending so as to expand our operating revenues.

2. Corporate Banking: We worked intensively on reorganization of corporate banking and set up the Developing Enterprises Loan Center to deliver differentiation- and focus-driven financial services. The launch of new corporate online banking system is an embodiment of a comprehensive financial department store concept by which financial products and services are made available on a one-stop shopping platform. This initiative has effectively increased customer stickiness and market share for our products.

3. Branch Banking: With equal emphasis on lending business growth and asset quality, our mortgage balance increased by around NT$5.6 billion (+22%) from NT$25.4 billion in 2011 to NT$31 billion at 2012 year-end. We took advantages of our branch's locations and worked proactively to attract nearby customers to our fund management services. As a result, our total deposit grew by around NT$13.6 billion (+12%) against NT$112.9 billion in the previous year to NT$126.5 billion this year. Also, we continued to build strategic alliance with globally renowned investment trust companies and insurance firms. By organizing professional training programs and introducing tailor-made products, we have delivered a full range of asset management services to increase our fee income and to gradually elevate profits from wealth management business.

4 .Financial Institution: We expanded interbank credit facilities and strived for more favorable business deals. Meanwhile, we took an active approach to enhancing our brand awareness and participating in global syndicated loans.

5.Integrated Marketing: We took several initiatives to offer a more customer-friendly banking environment and burnish our corporate image, including launching a brand new official website, planning and rolling out a mobile banking system, integrating product sales channels to develop cross-marketing campaigns, holding various workshops on investment and wealth management.

6.Treasury: We entered New Taiwan Dollar, U.S. Dollar, bonds and stock transactions under prudent risk management, along with an optimal allocation of assets and liabilities to improve our profit efficiency.

Social Responsibilities

Apart from providing higher quality financial services for our customers, the Bank played an active role in social charity activities as well. In 2012, we worked in tandem with National Taiwan University Hospital to provide free healthcare clinic and cancer screening for those in need of better quality health checks. We believe that health and wealth go hand in hand and are the only key to a truly beautiful life. We also joined United Way of Taiwan in organizing the "Young at Heart: Lollipops – Aged Care Creativity Contest," a contest for the youngsters to team up and come up with various creative ideas about how to help elders regain their social participation. Furthermore, we sponsored the "Finance Seminar for University Students Nationwide" and "the 4th AIESEC Youth Influence Forum" to train and help more talented people gain a global perspective and specialized financial knowledge so as to fulfill our commitment to educating future generations.

Financial Performance

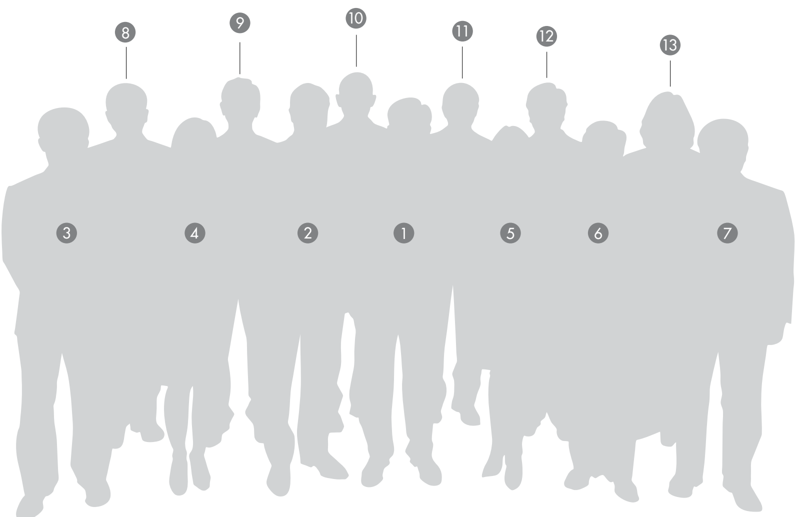
1. In 2011, the Bank rid itself of all the unamortized losses on disposal of non-performing assets. In 2012, the Bank exhibited its upward momentum and recorded a NT$2.89 billion after-tax profit, up by NT$3.15 billion in comparison with the NT$260 million loss in the previous year. Our return on assets rose to a high of 1.97% and return on equity to 20.90%.
2. With respect to risk control, the Bank has shed the past burden of non-performing loans with an active approach. Under prudent credit administration and effective debt recovery management, the non-performing loan ratio as at 2012 year-end has been significantly reduced to 0.78%.
3. At the end of 2012, the Bank successfully converted nearly NT$16.1 billion of subordinated unsecured mandatory convertible bonds to common stocks and completed a capital reduction. We substantially reduced the accumulated losses on book by exercising a capital reduction to offset losses and by injecting profits recorded in 2012. We expect to distribute dividends from 2014 as part of our business achievement to share with our shareholders.
4. Our capital adequacy ratio is 14.78% as at the end of 2012. This demonstrates that the Bank has sufficient funds to support its business operation and development under BASEL III from 2013.
5. The Bank's current credit ratings are as follows:
   (1) Rating by Taiwan Ratings Corporation: long/short-term credit rating and outlook are "twBBB-/twA-3/positive" respectively.
   (2) Rating by Fitch Ratings, Inc. : long/short-term credit rating and outlook are "BBB(twn)/F3(twn)/stable" respectively.

Future Prospect

Looking at 2013, the Bank expects to become a niche bank "with a firm foothold in Taiwan and advancement in Asia Pacific." We will not only proactively explore new customers but also deepen the relationships with existing clients. For customer services, we will create customer-focused services by integrating virtual and physical channels, supported by relentless renovation and mobile payment options to generate new corporate clients and customer groups. Also, we plan to extend our business franchise in the Asia-Pacific markets to meet customers' needs for cross-region banking. The Bank will make diligent efforts to enhance its corporate image as well as leadership in niche markets to offer the best fund management solutions for its target customers. On financial profitability, we will ensure proper allocation of assets and liabilities to expand our business scale and strengthen our core profit structure. Cost structure improvement will be duly implemented to augment operational capacity bankwide. Meanwhile, we will constantly fine-tune our risk management system to assure our asset quality. We will always bear in mind our motto that "We always work harder, faster, and smarter" and will make "relentless efforts and wholehearted dedication" to meet challenges ahead so as to create a 3-win situation and mutual value among our customers, shareholders and employees.

Chairman
Paul Lo

President
Richard Chang



1	Chairman	**Paul Lo**
2	President	**Richard Chang**
3	Branch Banking Group Head	**Seraph Sun**
4	Finance Group Head	**Oliver Ho**
5	Operation Group Head	**Wen Shu**
6	Risk Management Head	**James Lin**
7	General Counsel and Legal Division Head	**Sam Hong**
8	Credit Administration Group Head	**Walter Lin**
9	Chief Auditor	**Jack Chou**
10	Corporate Banking Group Head	**Advance Ju**
11	Global Market & Financial Institution Group Head	**M.T. Chang**
12	Consumer Banking Group Head	**Lee Hua**
13	General Administration Group Head	**Amy Han**


Hong Kong

Bank Overview

I. Introduction

1. Date of Establishment

Cosmos Bank ("the Bank") obtained the incorporation approval on August 13, 1991 and acquired its license on January 14, 1992. The Bank commenced its business officially on February 12, 1992. Since its inception, the Bank has been positioning itself to provide excellent financial services to corporate clients and the general public as a commercial bank. On December 28, 2007, the two major world-renowned financial groups S.A.C. and GE Capital participated in capital injection and together currently hold 82.35% of the total equity. Under the leadership of Chairman Paul Lo and the management team, the Bank is in full speed to become the local bank with world class capabilities as its ultimate goal.

2. Corporate History

(1) Merger & Acquisition, Investment in Related Companies or Corporate Restructuring:

The Bank did not undertake any merger, acquisition, investment in related companies or any corporate restructuring last year and as of the printing date of this annual report.

(2) Subsidiary to a specific financial holdings group:

The Bank is a commercial bank and is not a member of any financial holdings group.

(3)Directors (and independent directors) and those who had major transfer or change of equity requiring declaration subject to Paragraph 3, Article 25 of the Banking Act:None.

(4) In last fiscal year and as of the printing date of this annual report, the ownership of the Bank has not changed. No material change in management methods or business contents occurred, either. There are no other important matters affecting the rights of shareholders.

(5) Important Company History

A. The Bank foreclosed the Tainan Fourth Credit Cooperative Union, Miaoli Credit Cooperative Union, and Hsinchu Fifth Credit Cooperative Union on April 13, 1998, August 13, 2001, and July 28, 2003 respectively and merged with the Cosmos Bills Finance Corp. on October 31, 2002.

B. The Bank launched the George & Mary Cash Card in 1999.

C. The Bank issued the first EMV (Europay, MasterCard, Visa) chip credit card by co-branding with Living Mall of Core Pacific City in 2001.

D. The Auto Lending Machines (ALMs) were located island-wide in 2004 to offer faster and more convenient service channels to customers.

E. The Bank entered into an equity subscription agreement with GE Consumer Finance on January 23, 2006 and completed strategic recapitalization on June 8, 2006. Meanwhile, GE Group delegated directors and senior managers to Cosmos Bank, opening a new chapter of the Bank in joint management with a foreign investor.

F. In 2006, the Bank launched the MoneyBack Platinum Credit Card that offers cash rebates and special discounts at major department stores in Taiwan.

G. On December 28, 2007, the Bank completed a recapitalization exercise for about NT$42 billion. SAC Private Capital Group (S.A.C. PCG) became the biggest shareholder. GE Capital also participated in this capital increase. SAC and GE together account for more than 80% equity in total. Injected with capital and a large variety of world-class resources from these two major shareholders, the Bank introduced its new management team and board members who have expertise and management experience endowed with global visions. The Bank has implemented the "Turnaround Plan" in every aspect to improve corporate governance, enhance business performance and catalyze growth and transformation. This Plan has explored a brand new business opportunity for the Bank.

H. The Bank introduced the MoneyBack Signature Credit Card which combines several privileged offers with cash rebates.

I. The Bank realigned its branch channels in 2009 with the goal of enhancing business performance.

J. To improve its financial structure, the Bank initiated a project in 2009 to strengthen equity capital. The Bank issued common shares by private placement, converted part of its mandatory convertible bonds and all its preferred shares into common shares. Following the above-stated approaches to increasing funds, the Bank then reduced its capital to appropriate part of the accumulated losses. The paid-in capital after completion was NT$16.23 billion.

K. The Bank adopted a new corporate identity system (CIS) on April 8, 2010. Our new CIS concept derives from the idea of "Initiating wealth accumulation from the heart." The new CIS is shaped with both square and circled with 3D joints to symbolize our determination to begin a new way of thinking. The initials of Cosmos Bank "C"and "B" create the shapes of a heart and a "Yuan-bao" (sycee). Furthermore, the water channel in the middle symbolizes the relentless flows of wealth and manifests our mission to offer more valuable and innovative financial services and to create more financial advantages for our customers with the goal of creating a whole new win-win situation.

L. The Bank carried out the LEAN Project in August 2010 to eliminate activities that can no longer add customer value and to improve operational efficiency through a streamlined operating process.

M. The Bank undertook reorganization in 2011 to highlight each department's functions and enhance business performance.

N. The customer-focused "Cosmos Banking Center" located in Chengdong Branch was officially opened to public on February 17, 2011. It offers a complete range of financial products covering deposit and remittance, consumer banking, corporate banking, wealth management and mortgage as well as instant services such as "Express Loans." Under the professional directions by our "Professional Service Managers," customers can obtain immediate solutions to their problems and demands.

O. On December 7, 2011, the Bank launched the "Cosmos Mobile Payment X-Card" and is the first bank officially approved by the Financial Supervisory Commission to deliver mobile payment services. XATM transfer and fee payment functions were added in 2012 to offer customers a safer and faster payment option.

P. In October 2012, the Bank co-branded with MILK Magazine, Rose House and ezfly to roll out the Macaroon Credit Card embedded with EasyCard functions. By collaborating with multiple brands, the Bank aims to facilitate exchanges between brand followers and maximize card rewards and discount offers so as to create a 3-win situation for card holders, participating brands and the Bank.

Q. The "subordinated unsecured mandatory convertible bonds" issued on December 28, 2007 has all been converted to common stocks in a total of 1,230,254 thousand shares on December 27, 2012. The face value is NT$10 per share and the shares total NT$12,302,541 thousand.

R. To strengthen the Bank's financial structure and offset accumulated losses, the first extraordinary stockholders' meeting in 2012 approved to reduce capital by 46.54%. The actual paid-in capital after the capital reduction amounts to NT$15.256 billion.

II. Organization

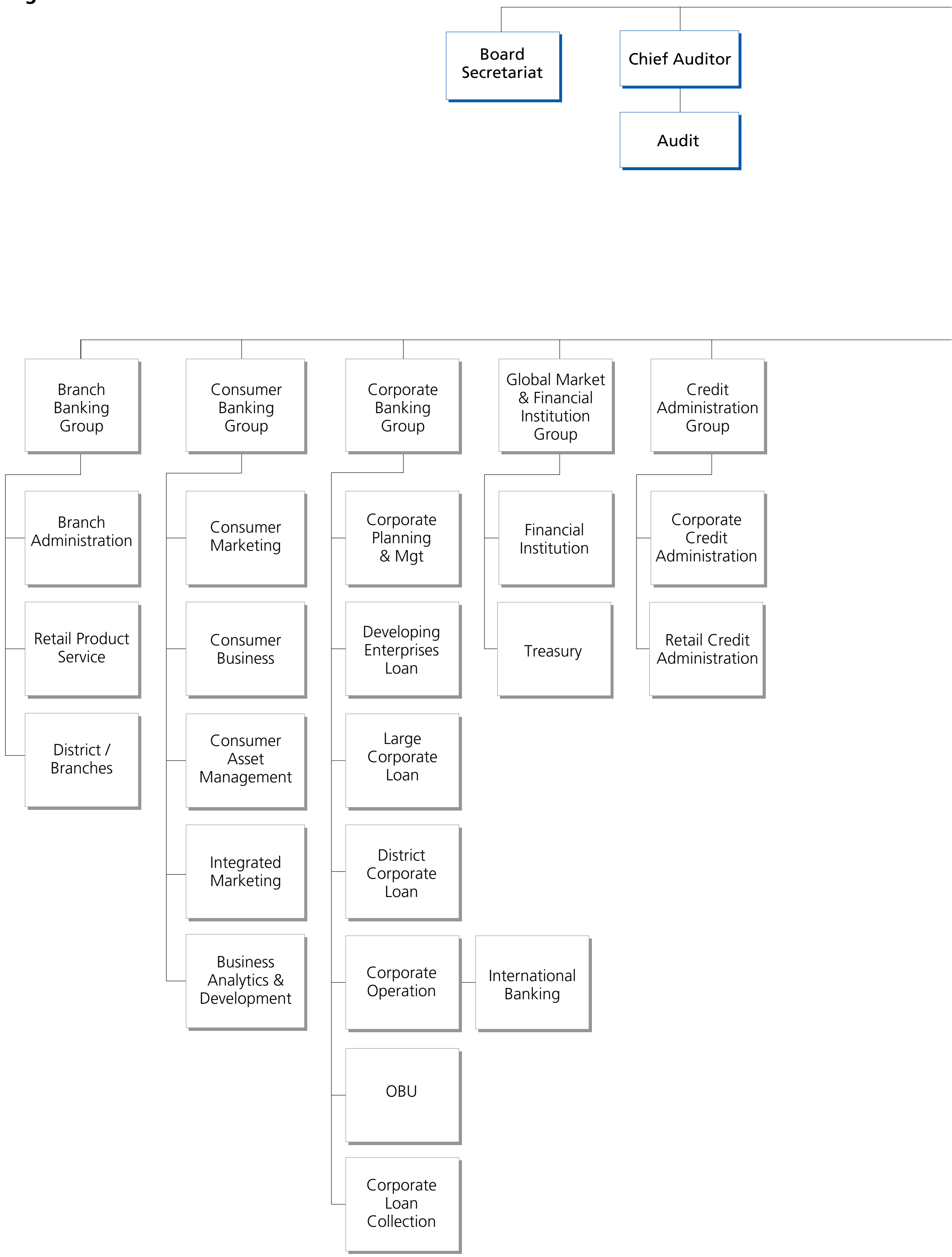
1. Businesses Operated by Major Departments

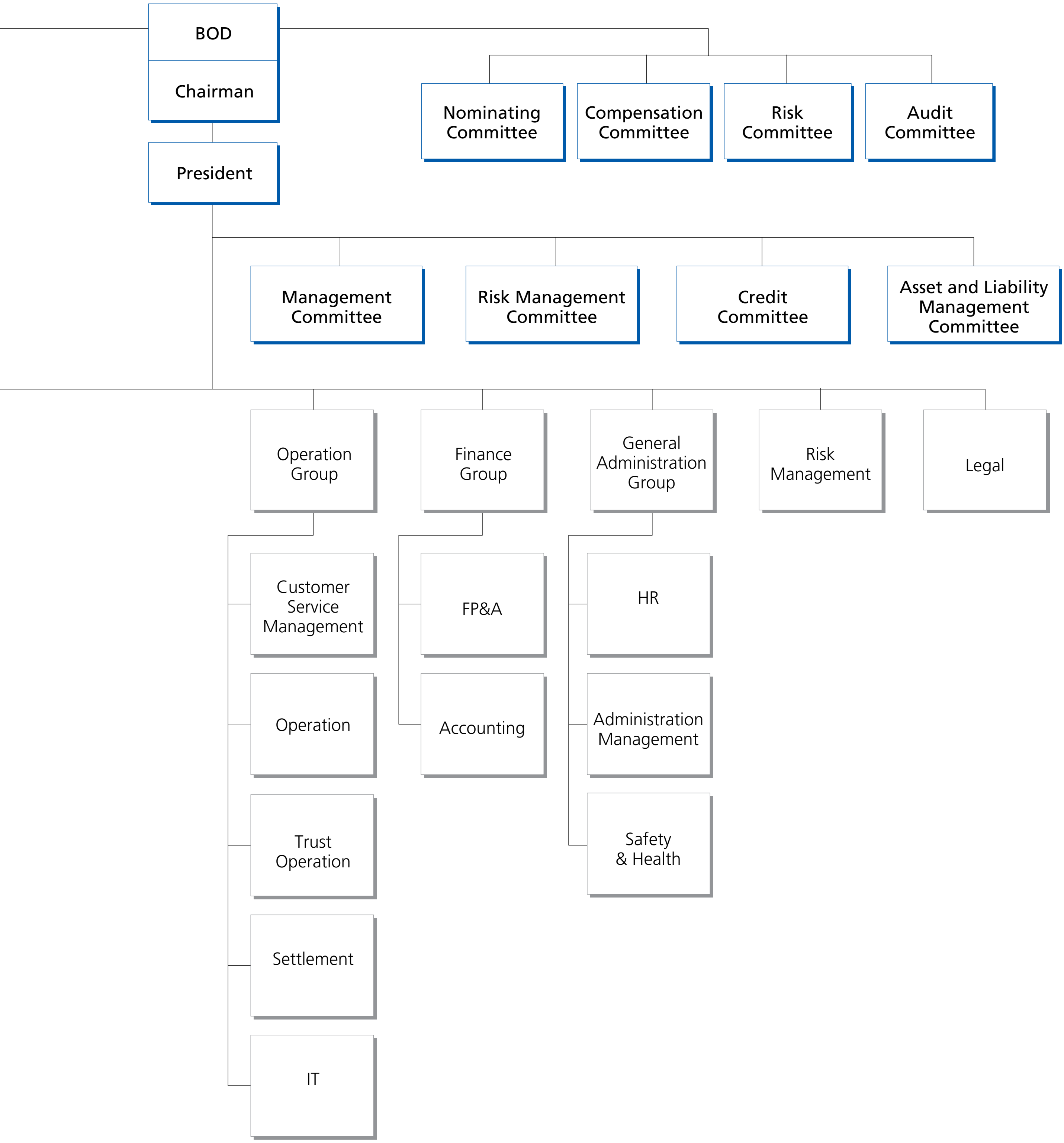
Business / Function	Department	Major Business
Branch Banking Group	• Branch Administration • Retail Product Service • District / Branches	Handles marketing of wealth management, consumer banking and SME banking business. Responsibilities of related divisions are set forth as follows: • Branch Administration is in charge of managing performance, budgeting, approving bonus, arranging and implementing training, executing legal compliance system, formulating and reviewing operating procedures for all businesses governed by Branch Banking Group. • Retail Product Service is responsible for investment, insurance, mortgage, planning of new trust products, market research and analysis and implementation of business initiatives to achieve targets for all channels. • District / Branches are responsible for carrying out branch banking related businesses and profit / loss targets, managing branch personnel, increasing target customers and delivering satisfying services.
Consumer Banking Group	• Consumer Marketing • Consumer Business • Consumer Asset Management • Integrated Marketing • Business Analytics & Development	Handles design and development of consumer banking products, business management and promotion, establishment of regulations and procedures, credit management, collection and management of delinquent loans, management of outsourced debt collection, and strategic planning and analysis. Responsibilities of related divisions are set forth as follows: • Consumer Marketing takes charge of product strategies, designing and planning, product development and management, tele-marketing, advertising, project management and information processing. • Consumer Business takes care of development and management of marketing channels, expansion of channels, assessment and management of ALMs, management of marketing goals, education and training, formulation of regulations and operating procedures for consumer banking products and reporting of related information to the competent authority. • Consumer Asset Management is in charge of tele-collection, debt negotiation, legal collection, recovery of bad debts and management of outsourced collections. • Integrated Marketing is responsible for promotion and implementation of marketing campaigns for all financial products, and planning of internet banking, mobile banking and other channels, and proposal of integrated products across enterprise groups by targeting at different customer groups. • Business Analytics & Development is responsible for integrating information environment management with business analysis methods in order to develop a better understanding of customer behavior so as to recommend action plans for retail/consumer banking products or services, arranged activities for business projects and conducts telemarketing business.

Business / Function	Department	Major Business
Corporate Banking Group	• Corporate Planning & Mgt • Developing Enterprises Loan • Large Corporate Loan • District Corporate Loan • Corporate Operation • OBU • Corporate Loan Collection	Handles development of corporate banking products, business implementation and promotion, management of credit risks, supports for back-end operations, management of FX business, collection of delinquent loans and offshore banking business. Responsibilities of related divisions are set forth as follows: • Corporate Planning & Mgt is responsible for affairs in relation to corporate banking operations including strategy planning and business implementation, budgets, MIS, management of performance appraisal for branches and business personnel, planning and implementation of education & training programs for corporate banking personnel, design and development of corporate banking products as well as establishment of applicable regulations and charters. • Developing Enterprises Loan is responsible for formulation and promotion of corporate banking business plans for small sized enterprises (annual operating income less than NT$300 million), customer development and relations, handling of credit applications, preparation of credit reports, contract signoff and credit drawdown, post-lending management and relevant matters. • Large Corporate Loan is responsible for formulation and promotion of corporate banking business plans for small & medium/medium/large-sized enterprises (annual operating income over than NT$300 million), maintenance of existing corporate loans, customer development and relations, handling of credit applications, preparation of credit reports, contract signoff and credit drawdown, post-lending management and relevant matters. • District Corporate Loan is responsible for formulation and promotion of corporate banking business plans for small & medium/medium/large-sized enterprises (annual operating income over than NT$300 million), customer development and relations, handling of credit applications, preparation of credit reports, contract signoff and credit drawdown, post-lending management and relevant matters. • Corporate Operation manages operations and management of corporate banking business, along with operations, formulation of operational regulations, planning and management of FX businesses covered by International Banking. • OBU handles management and promotion of offshore banking businesses. • Corporate Loan Collection is responsible for loan collection regarding corporate banking business.
Global Market & Financial Institution Group	• Financial Institution • Treasury	Responsibilities of related divisions are set forth as follows: • Financial Institution manages remittances, credit facilities, business development, relationship maintenance with other financial institutions and engages in global banking businesses. • Treasury manages bank-wide reserves and liquid reserves, and utilization, transfer and appropriation of exceed fund, and arranges and executes transactions of financial instruments such as debentures and bills.
Credit Administration Group	• Corporate Credit Administration • Retail Credit Administration	Manages business in relation to credit administration. Responsibilities of related divisions are set forth as follows: • Corporate Credit Administration manages corporate banking credit check, assessment and review after loan disbursement, matters in relation to corporate banking risk management such as limits on credit grants and amends or revises the "Cosmos Bank Guidelines Governing FI Credit Assessment". • Retail Credit Administration is in charge of formulating policies and regulations on consumer loans, conducting credit assessment and review of consumer loan applications and other related administrative affairs.

Business / Function	Department	Major Business
Operation Group	• Customer Service Management • Operation • Trust Operation • Settlement • IT	Handles operations, customer services and quality thereof. Responsibilities of related divisions are set forth as follows: • Customer Service Management delivers customer services over the phone, responsible for LEAN Projects and customer experience management. • Operation centralized handling of branch remittances, bills, distraint cases, tax payments and ATM / ADM daily settlements. • Trust Operation handles trust businesses in conformity with the Trust Enterprise Act and planning and operations of the affiliated businesses. • Settlement takes care of back-end accounting dealt in New Taiwan Dollars and foreign currencies, and settlement and custody affairs relevant to treasury business. • IT manages matters concerning planning and formulating bank-wide information strategies, planning and controlling information budgets, and maintaining and administering information operations.
Finance Group	• FP&A • Accounting	Responsibilities of related divisions are set forth as follows: • FP&A assists in business decision-making process, consolidates and drafts business plans, carries out analyses of business information difference and sensitivity, and reviews each business group's performance. • Accounting manages accounting systems, tax affairs and matters as to planning and execution of account books among Head Office and branches, and takes charge of consolidating, preparing and reporting financial statements.
General Administration Group	• HR • Administration Management • Safety & Health	Responsibilities of related divisions are set forth as follows: • HR in charge of planning personnel system and matters regarding personnel management of the Bank. • Administration Management takes care of document, property, cashier, renovation, procurement for office use, safety management and administration management. • Safety & Health is responsible for planning, training, supervising and assessing the safety & health system bank-wide.
Risk Management	Risk Management	Takes charge of risk management policy, risk assessment, monitoring and controlling of asset quality as well as matters related to bank-wide compliance with BASEL II.
Legal	Legal	Manages bank-wide legal affairs, legal compliance, application for patent registration and consultation about legal affairs as well as planning, supervision, training, implementation and assessment of legal compliance system.
Audit	Audit	Responsible for assessment of internal control systems and planning and execution of internal audit systems and reports on audit business to the Audit Committee and the Board of Directors on a regular or irregular basis in accordance with relevant regulations.
Board Secretariat	Board Secretariat	Takes care of matters related to shareholders' meetings and board of directors' meetings, receives employees' complaints about internal policies or suggestions for improvement on behalf of the Board of Directors, assists the spokesperson in maintaining external relationship and responsible for communication with the competent authority.

2. Organization Chart




BOD
Chairman
President
Nominating Committee
Compensation Committee
Risk Committee
Audit Committee
Management Committee
Risk Management Committee
Credit Committee
Asset and Liability Management Committee
Operation Group
Finance Group
General Administration Group
Risk Management
Legal
Customer Service Management
Operation
Trust Operation
Settlement
IT
FP&A
Accounting
HR
Administration Management
Safety & Health

III. Information of Directors (and Independent Directors)

Title	Name	Date Elected	Term (Note 1)	Date First Elected	Shareholding when Elected		Present Shareholding	
					Shares	Shareholding (%)	Shares	Shareholding (%)
Chairman	Paul Lo	2010.06.18	3 years	2009.06.19	0	0.00	0	0.00
Director	S.A.C. PEI Taiwan Holdings B.V.	2010.06.18	3 years	2008.03.04	524,402,766	32.3	870,926,939	57.09
	Representative: Jeffrey M. Hendren				0	0.00	0	0.00
Director	S.A.C. PEI Taiwan Holdings B.V.	2010.06.18	3 years	2008.03.04	524,402,766	32.3	870,926,939	57.09
	Representative: Peter Berger				0	0.00	0	0.00
Director	S.A.C. PEI Taiwan Holdings B.V.	2010.06.18	3 years	2008.03.04	524,402,766	32.3	870,926,939	57.09
	Representative: Pamela Wu(Note 2)				0	0.00	0	0.00
Director	S.A.C. PEI Taiwan Holdings B.V.	2010.06.18	3 years	2008.03.04	524,402,766	32.3	870,926,939	57.09
	Representative: Wouter Kolff				0	0.00	0	0.00
Director	David M. Fite	2010.06.18	3 years	2007.12.05	0	0.00	0	0.00

Base Date: April 23, 2013

Spouse & Minor Shareholding		Shareholding by Nominee Arrangement(s)		Education & Work Experience	Position(s) Currently Held in the Bank & Other Companies	Executives, Directors or Supervisors as Spouses or within Two Degrees of Kinship		
Shares	Shareholding (%)	Shares	Shareholding (%)			Title	Name	Relation
0	0.00	0	0.00	M.B.A. and Honorary Doctorate, Indiana State University, USA CEO and President of SinoPac Holdings Company Chairman of Bank SinoPac	Chairman of the Bank	None	None	None
0	0.00	0	0.00	M.B.A. from Harvard Business School Goldman, Sachs & Co.'s merger department Managing Director at RHJ International / Ripplewood Holdings LLC Managing Director & founding partner of S.A.C. Private Capital Group	Managing Director & Co-Founder of Siris Capital	None	None	None
0	0.00	0	0.00					
0	0.00	0	0.00	M.B.A. from Columbia University Graduate School of Business Special Senior Advisor to the Board of RHJ International Managing Director of Ripplewood Holdings LLC Managing Director of S.A.C. Private Capital Group	Managing Director & Co-Founder of Siris Capital Director of S.A.C. PEI Taiwan Holdings B.V.	None	None	None
0	0.00	0	0.00					
0	0.00	0	0.00	M.B.A. of Syracuse University Senior vice president of Treasury Div. and CFO of Cosmos Bank Deputy CFO of Cathay United Bank	Financial specialist of Siris Capital	None	None	None
0	0.00	0	0.00					
0	0.00	0	0.00	M.A. from Erasmus University Rotterdam Board Director of Fetim / Benovem B.V. in Amsterdam	Strategic global advisor of Yesbank Chairman of the Board of Vastned Retail Director of S.A.C. PEI Taiwan Holdings B.V.	None	None	None
0	0.00	0	0.00					
0	0.00	0	0.00	M.A. of Business School, M.A. of Food Research Department Stanford University B.A. of Harvard College Managing partner of Euclid Capital Partners Former Senior Corporate Officer and CFO of Shinsei Bank	Member of the Board, and Chairman, of National Financial Solutions Pty, Melbourne Australia	None	None	None

Title	Name	Date Elected	Term (Note 1)	Date First Elected	Shareholding when Elected		Present Shareholding	
					Shares	Shareholding (%)	Shares	Shareholding (%)
Director	GE Money Taiwan, Ltd.	2010.06.18	3 years	2007.05.30	105	0.00	56	0.00
	Representative: Bernard van Bunnik				0	0.00	0	0.00
Director	GE Money Taiwan, Ltd.	2010.06.18	3 years	2007.05.30	105	0.00	56	0.00
	Representative: Bhupesh Gupta				0	0.00	0	0.00
Director	Royden Kuikahi Nakamura	2010.06.18	3 years	2009.06.19	0	0.00	0	0.00
Director	Richard Chang	2010.06.18	3 years	2010.06.18	0	0.00	0	0.00
Independent Director	Wang Wen-Yu	2010.06.18	3 years	2007.05.30	0	0.00	0	0.00

Spouse & Minor Shareholding		Shareholding by Nominee Arrangement(s)		Education & Work Experience	Position(s) Currently Held in the Bank & Other Companies	Executives, Directors or Supervisors as Spouses or within Two Degrees of Kinship		
Shares	Shareholding (%)	Shares	Shareholding (%)			Title	Name	Relation
0	0.00	0	0.00	Fontainebleau INSEAD M.B.A. Erasmus University Rotterdam	Chief Operating Officer of GE Capital Asia Pacific	None	None	None
0	0.00	0	0.00					
0	0.00	0	0.00	LLB & BCom from Delhi University	Chief Risk Officer of GE Capital Asia Pacific	None	None	None
0	0.00	0	0.00					
0	0.00	0	0.00	M.B.A. from Georgetown University B.A. from University of Chicago Special Advisor of S.A.C. Private Capital Group Managing Member of Electronic Trading Group	Special Advisor of Siris Capital Group	None	None	None
0	0.00	0	0.00	M.B.A. from University of Chicago, USA Vice President, Spokesperson and Head of Public Affairs Division of SinoPac Holdings Co., Ltd.	President of the Bank	None	None	None
0	0.00	0	0.00	S.J.D., Stanford University, USA LL.M, Columbia University, USA BA and MA in Laws, National Taiwan University Professor of College of Law, National Taiwan University Visiting Professor of University of Hawaii, University of Hong Kong and National University of Singapore Supervisor of Taiwan Futures Exchange Director of Taiwan Cooperative Bank Member of Fair Trade Commission	Professor of College of Law, National Taiwan University Independent Director of Global Unichip Corp. Independent Director of President Chain Store Corp.	None	None	None

Title	Name	Date Elected	Term (Note 1)	Date First Elected	Shareholding when Elected		Present Shareholding	
					Shares	Shareholding (%)	Shares	Shareholding (%)
Independent Director	Lin Hsien-Lan	2010.06.18	3 years	2010.06.18	0	0.00	0	0.00
Independent Director	Lin Hsiou-Wei	2010.06.18	3 years	2010.06.18	0	0.00	0	0.00

Note 1 : The tenure of the 7th Term Board of Directors commenced on June 18, 2010 and will terminate on June 20, 2013.

Note 2 : On January 1, 2013 corporate director S.A.C.PEI Taiwan Holdings B.V. delivered a written notice to appoint Pamela Wu as its representative to succeed Frank Baker.

Spouse & Minor Shareholding		Shareholding by Nominee Arrangement(s)		Education & Work Experience	Position(s) Currently Held in the Bank & Other Companies	Executives, Directors or Supervisors as Spouses or within Two Degrees of Kinship		
Shares	Shareholding (%)	Shares	Shareholding (%)			Title	Name	Relation
0	0.00	0	0.00	BA in Commerce, National Taiwan University CPA of Taiwan, R.O.C. CEO of KPMG Director-General of CPA Association, Taiwan R.O.C. Director-General of Taipei City CPA Association Member of CPAs Disciplinary Committee Managing Director of Accounting Research and Development Foundation	Independent Director of Shiny Chemical Industrial Co., Ltd. Independent Director of Chimei Materials Technology Corp.	None	None	None
0	0.00	0	0.00	Ph.D. in Business, Stanford University, USA M.B.A. from University of New York, USA BA in Commerce, National Taiwan University Director of Bank of Overseas Chinese Director of MStar Semiconductor, Inc. Member of National Financial Stabilization Fund Committee Member of Public Service Pension Fund Committee	Professor of Department of International Business, National Taiwan University Independent Director of MStar Semiconductor, Inc.	None	None	None

Table 1: Major shareholders of corporate shareholders

Base Date: March 31,2013

Name of corporate shareholders	Major shareholders of corporate shareholders
S.A.C. PEI Taiwan Holdings B. V.	S.A.C. PEI Taiwan Holdings III B.V. (100%)
GE Money Taiwan, Ltd.	General Electric Capital Corporation (80%) General Electric Capital Asia Investments, Inc (20%)

Table 2: The major shareholders of those in Table 1 whose major shareholders are corporations

Base Date: March 31,2013

Name of corporate shareholders	Major shareholders of corporate shareholders
S.A.C. PEI Taiwan Holdings III B.V. (100%)	S.A.C. PEI Asia Investments Holdings II S.à r.l. (100%)
General Electric Capital Corporation	General Electric Company (100%)
General Electric Capital Asia Investments, Inc	Gelco Corporation (100%)

Shanghai

Fund Raising Status and Operational Highlights

I. Capital & Dividend

1. Sources of Capital

Unit: NT$1,000; 1,000 shares
Unit of issue price: NT$

Month Year	Issue Price	Authorized Capital		Paid-in Capital		Remarks
		No. of Shares	Amount	No. of Shares	Amount	Sources of Capital
January 1992	$10	1,200,000	12,000,000	1,200,000	12,000,000	Funding capital
April 1997	$10	1,253,460	12,534,600	1,253,460	12,534,600	Recapitalization of earnings
July 1998	$10	1,337,481	13,374,810	1,337,481	13,374,810	Recapitalization of earnings
April 2000	$10	1,400,928	14,009,277	1,400,928	14,009,277	Recapitalization of earnings
October 2002	$10	1,771,002	17,710,015	1,771,002	17,710,015	Merger with Cosmos Bills Finance Corps.
June 2006	$14	2,500,000	25,000,000	1,967,780	19,677,795	Recapitalization by private placement of shares
December 2007	-	2,500,000	25,000,000	1,377,446	13,774,456	Capital reduction
December 2007	$2	20,000,000	200,000,000	8,436,650	84,366,500	Recapitalization by private placement of shares
September 2008	-	20,000,000	200,000,000	2,778,036	27,780,360	Capital reduction
September 2009	$3.22	20,000,000	200,000,000	2,948,958	29,489,577	Recapitalization by private placement of shares
October 2009	(Note 1)	20,000,000	200,000,000	3,553,464	35,534,639	(Note 1)
October 2009	-	20,000,000	200,000,000	1,623,464	16,234,639	Capital reduction
December 2012	(Note 2)	20,000,000	200,000,000	2,853,718	28,537,180	(Note 2)
December 2012	-	20,000,000	200,000,000	1,525,598	15,255,976	Capital reduction

Note 1 : S.A.C. PEI Taiwan Holdings B.V. converted part of its Subordinated Unsecured Mandatory Convertible Bonds ("MCB") to common stocks of the Bank on October 6, 2009. The conversion price was NT$6.0049020 after adjustment in accordance with the debenture issuance regulations. S.A.C. also converted the preferred shares that it had held to common stocks of the Bank.

Note 2 : S.A.C. PEI Taiwan Holdings B.V. and GE Capital Asia Investments Holdings B.V.converted all subordinated unsecured mandatory convertible bonds that they had held to common stocks of the Bank on December 27, 2012. The conversion price is NT$13.1436263.

Unit: 1,000 shares
Base Date: December 31, 2012

Type of Share	Authorized Capital			Remarks
	Outstanding Shares	Un-issued Shares	Total	
Common Share	1,525,598	18,474,402	20,000,000	Listed (1,425,895,000 shares of which are un-listed due to private placement)

2. Composition of Shareholders

Unit: Share, Headcount
Base Date: April 23, 2013

Composition of Shareholders / Number	Government Agencies	Financial Institutions	Other Corporations	Domestic Individuals	Foreign Institutions & Foreign Individuals	Total
Shareholders	4	22	66	30,277	68	30,437
Shares Held	491,788	179,256,907	23,603,931	53,351,532	1,268,893,456	1,525,597,614
Percentage of Shareholding(%)	0.03	11.75	1.55	3.50	83.17	100

3. Distribution of Shareholding

(1) Distribution of Common Shares

Unit: Share, Headcount
Base Date: April 23, 2013

Shareholding Bucket	No. of Shareholders	No. of Shares Held	Shareholding (%)
1~999	25,014	4,730,421	0.31
1,000~5,000	3,601	7,506,312	0.49
5,001~10,000	870	5,854,453	0.38
10,001~15,000	318	3,826,798	0.25
15,001~20,000	161	2,805,381	0.19
20,001~30,000	161	4,036,127	0.26
30,001~40,000	74	2,602,335	0.17
40,001~50,000	30	1,329,693	0.09
50,001~100,000	91	6,077,212	0.40
100,001~200,000	48	6,507,965	0.43
200,001~400,000	35	9,805,766	0.64
400,001~600,000	9	4,528,550	0.30
600,001~800,000	3	2,171,127	0.14
800,001~1,000,000	4	3,656,507	0.24
1,000,001~	18	1,460,158,967	95.71
Total	30,437	1,525,597,614	100.00

Note: Face value per share = NT$10

(2) Distribution of Preferred Stock: None.

4. List of Major Shareholders

Unit: Share
Base Date: April 23, 2013

Shares / Name of Major Shareholders	No. of Shares Held	Shareholding (%)
S.A.C. PEI Taiwan Holdings B.V.	870,926,939	57.09
GE Capital Asia Investments Holdings	276,478,343	18.12
China Development Industrial Bank	103,230,712	6.77
Citibank Taiwan is the custodian trustee for the investment account of GE Capital Asia Investments Holdings B.V.	67,111,616	4.40
GE International Inc.	41,746,203	2.74
Shin Kong Life Insurance Co., Ltd.	33,377,332	2.19
Taiwan Shin Kong Commercial Bank Co., Ltd.	21,519,201	1.41
Primasia Securities Company Limited	18,581,000	1.22
Bank Taiwan Life Insurance Co., Ltd.	6,660,046	0.44
Allianz Life Insurance Co., Ltd.	3,996,028	0.26

Note: The above table lists the top 10 shareholders based on percentage of shareholding.

5. Market Price, Net Worth, Earnings and Dividends per Share in Last Two Years

Year / Item			FY 2012	FY 2011	Current year up until March 31, 2013 (Note 5)
Market Price per Share	Highest (NT$)		9.86	9.90	20.50(Note 7)
	Lowest (NT$)		5.70	5.02	9.45
	Average (NT$)		7.92	6.94	13.56
Net Worth per Share	Before Appropriation (NT$)		10.06	7.60	10.43
	After Appropriation (NT$)		(Note 1)	7.60	(Note 1)
Earnings per Share	Weighted Average Share (Thousand Shares)		876,889(Note 6)	1,623,464	1,525,598
	Earnings per Share (NT$)		3.30(Note 6)	(0.16)	0.34
Dividends per Share	Cash Dividends		-	-	-
	Stock Dividends	Retained Earnings	-	-	-
		Capital Reserve	-	-	-
	Cumulative Dividends Undistributed		-	-	-
Return on Investment	Price/Earnings Ratio (P/E Ratio)(Note 2)		2.40	(Note 3)	(Note 4)
	Price/Dividends Ratio (P/D Ratio)		-	-	-
	Cash Dividend Yield Rate (%)		-	-	-

Note 1: The net worth per share after appropriation as of March 2013 and year 2012 has not yet been resolved by the shareholders' meeting.

Note 2: P/E ratio= Average closing price per share during the fiscal year / Earnings per share.

Note 3: The earning per share is negative so this is not applicable.

Note 4: The P/E ratio is not applicable as it is less than one year.

Note 5: As of March 31, 2013, the net worth per share and earnings per share have not been reviewed by a CPA.

Note 6: All of the Bank's subordinated unsecured mandatory convertible bonds had been converted to common stocks on December 27, 2012. A capital reduction of NT$13,281,204 thousand for offsetting accumulated losses was completed on December 28, 2012. The foregoing capital reduction shall apply retroactively to calculation of weighted average shares and earnings per share recorded on the opening balance.

Note 7: The listing date of newly issued shares under the aforementioned capital reduction is March 1, 2013.

6. Dividend Policy & Implementation Status

(1) Dividend Policy under the Articles of Incorporation (AOI)

For long-term financial planning, increase of capital adequacy ratio and taking into account the stockholders' needs for cash inflows, the Bank's annual net incomes, less business income tax and any losses of prior years, should be appropriated in 30% as legal reserve and as special reserve booked as a deduction item of stockholders' equity, and the remainder plus unappropriated earnings of prior years should be appropriated in 80% as dividends to stockholders, and the remaining 20% should be appropriated as follows:

1) 80% as bonus to stockholders

2) 15% as bonus to employees

3) 5% as remuneration to directors

The cash dividends should be at least 10% of the total dividends to be paid / distributed. However, if the cash dividend is less than NT$0.1 per share, the entire dividend should be paid in stock. If the cumulative surplus of the previous year or the after-tax surplus of the current year is insufficient for the appropriation as shareholders' equity deduction, a special surplus reserve of equivalent amount shall be appropriated from the cumulative unappropriated earnings of the previous year and none of the earnings should be distributed.

In making this appropriation, the shareholders' meeting may in consideration of future business needs as well as profit and loss, decide not to appropriate any dividend and bonus in full or in part.

In addition, before the legal reserve equals the Bank's paid-in capital, annual cash dividends and bonuses should not exceed 15% of paid-in capital.

(2) Plan to submit a proposal regarding distribution of dividends to the upcoming shareholders' meeting: None.

II. Issuance of Bank Debentures

Type of Bank Debenture	Subordinated unsecured mandatory convertible bonds (by private placement)(Note)
Date & Ref. No. of Official Approval Issued by the Competent Authority	FSC approval letter: Jin-Kuan-Yin-(2)-Zi No.09600547240 dated December 18, 2007
Issue Date	December 28, 2007
Face Value	NT$10,000,000 or its multiple
Place of Issue & Transaction	Taiwan, R.O.C.
Currency	New Taiwan Dollar
Issue Price	At face value
Total Amount	NT$19.8 billion
Interest Rate	1st and 2nd Year: coupon rate 6% 3rd, 4th and 5th Year: coupon rate 4%
Maturity	5 years Maturity date: December 28, 2012
Redemption Position	Subordinated
Guarantee Agency	N/A
Trustee	N/A
Underwriter	N/A
Certifying Lawyer	N/A
Certifying Accountant	N/A
Certifying Financial Agency	Trust Department of EnTie Commercial Bank
Redemption Method	Converted to common shares of Cosmos
Un-redeemed Balance	NT$0
Paid-in Capital in Last Fiscal Year	NT$19,677,795 thousand
Net Worth in Last Fiscal Year	NT$11,893,997 thousand
Execution of Agreement	Normal
Clause on Redemption or Early Redemption	Advance repayment, redemption, buyback, purchase or cancellation or amendment of all or part of the convertible bonds is prohibited unless agreed by the bondholders in writing and approved the competent authority beforehand.
Conditions on Conversion & Exchange	(1) Mandatory conversion: The Bonds will (a) terminate on the maturity date or (b) be converted whenever needed to maintain the Bank's capital adequacy ratio at 8% or higher or the Tier 1 capital ratio at 4% or higher, with the related calculation to include the pro rata conversion of holdings on the date of the conversion. (2) Free conversion: Conversion may be exercised between the 31st day following the issue date and the maturity date.
Restriction Clause	Subordinated debenture

Type of Bank Debenture	Subordinated unsecured mandatory convertible bonds (by private placement)(Note)
Fund Utilization Plan	Enhance capital structure to fund the Bank's mid- and long-term business development and growth
Ratio of the reported issue amount plus the balance of already issued and outstanding debentures to the net worth in the preceding fiscal year (%)	170.80
Whether Counted in Qualified Equity Capital and Type of Capital	Yes. Tier 2 capital
Name of Credit Rating Agency, Date and Result of Rating	N/A

Note: S.A.C. PEI Taiwan Holdings B.V. and GE Capital Asia Investments Holdings B.V. converted all subordinated unsecured mandatory convertible bonds that they had held to common stocks of the Bank on December 27, 2012.

III. Preferred Shares: None.

IV. Issuance of Global Depository Receipts: None.

V. Employee Stock Option Plan (ESOP)

The subscription status of the unexpired employee stock warrants and impact on shareholders' equity.

Base Date: March 31, 2013

<table>
<tr><th>Type of stock option</th><th colspan="2">1st Tranche of stock option</th><th colspan="2">2nd Tranche of stock option</th></tr>
<tr><td>Effective date</td><td colspan="2">September 2, 2010</td><td colspan="2">September 2, 2010</td></tr>
<tr><td>Issue (processing) date</td><td colspan="2">May 3, 2011</td><td colspan="2">August 29, 2011</td></tr>
<tr><td>Unit issued</td><td colspan="2">37,204,422 shares</td><td colspan="2">19,439,100 shares</td></tr>
<tr><td>Option shares to be issued as a percentage of outstanding shares (%) (Note 1)</td><td colspan="2">2.44</td><td colspan="2">1.27</td></tr>
<tr><td>Duration</td><td colspan="2">2011.5.3~2021.5.3</td><td colspan="2">2011.8.29~2021.8.29</td></tr>
<tr><td>Conversion measures</td><td colspan="2">Issuance of new shares</td><td colspan="2">Issuance of new shares</td></tr>
<tr><td rowspan="2">Conditional conversion periods and percentages (%)</td><td>Vested schedule</td><td>Highest ratio of share subscription rights to be exercised (cumulative)</td><td>Vested schedule</td><td>Highest ratio of share subscription rights to be exercised (cumulative)</td></tr>
<tr><td>After 2 years
After 2 years and 6 months
After 3 years
After 3 years and 6 months
After 4 years</td><td>50
62.5
75
87.5
100</td><td>After 2 years
After 2 years and 6 months
After 3 years
After 3 years and 6 months
After 4 years</td><td>50
62.5
75
87.5
100</td></tr>
<tr><td>Exercised shares</td><td colspan="2">0</td><td colspan="2">0</td></tr>
<tr><td>Exercised amount (NT$)</td><td colspan="2">0</td><td colspan="2">0</td></tr>
<tr><td>Number of shares yet to be Exercised (Note 2)</td><td colspan="2">26,490,139 shares</td><td colspan="2">13,830,127 shares</td></tr>
<tr><td>Price for those unexercised shares (NT$)</td><td colspan="2">15.19</td><td colspan="2">11.67</td></tr>
<tr><td>Unexercised shares as a percentage of outstanding shares (%) (Note 1)</td><td colspan="2">1.74</td><td colspan="2">0.91</td></tr>
<tr><td>Impact on possible dilution of shareholdings</td><td colspan="4">After two years of the issuance of the stock option certificate, the share subscription rights can then be exercised in the conditional conversion periods stated in the share subscription terms and conditions. As such, the original shareholders equity will be gradually diluted year by year, but the dilution effect shall be limited.</td></tr>
</table>

Note 1: The percentage is calculated by the sum of outstanding shares totaling 1,525,597,614 as of March 31, 2013.

Note 2: The number of shares yet to be exercised excludes those with rights being expired.

Note 3: The base date of the Bank's capital reduction is December 28, 2012.

VI. Merger with or Acquisition of Other Financial Institutions: None.

VII. Scope of Business

1. Business Overview

(1) Major Businesses

A. Deposit and Wealth Management

The Bank acts as an agent accepting deposit in New Taiwan Dollars and foreign currencies and provides all types of services catering to customers' needs for investment and wealth management, including trust, wealth management and banking insurance.

B. Consumer Banking

The Bank offers cash card, credit card, personal loans and mortgage loans for clients.

C. Corporate Banking

The Bank provides current financing, mid- and long-term financing for corporations.

D. Foreign Exchange ("FX")

The Bank provides FX services including export / import bills financing, foreign exchange, remittance of foreign currencies, foreign currency loans and guarantees etc.

E. Other banking-related businesses approved by the competent authority.

(2) Business Portfolio

Unit: NT$1,000

Item	FY 2012	FY 2011	Increase (Decrease) (%)
Net interest	4,259,612	4,053,860	5
Service fee income, net	1,105,019	1,067,369	4
Losses on financial assets and liabilities at fair value through profit or loss	(15,372)	(93,410)	84
Realized gains on the sale of available-for-sale financial assets	53,820	70,372	(24)
Income from equity investments under the equity method	43,628	27,536	58
Foreign exchange (losses) gains, net	(14,367)	51,487	(128)
Other non-interest gains, net	121,258	87,064	39
Loss on the sale of non-performing loans	-	(3,368,229)	100
Total net revenues	5,553,598	1,896,049	193

(3) Overview of Major Businesses

A. Deposit Business

Unit: NT$1,000

Item	Dec. 31, 2012		Dec. 31, 2011		Increase (Decrease)	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Demand Deposit	39,033,732	30.86	37,915,539	33.57	1,118,193	2.95
Time Deposit	87,465,461	69.14	75,020,291	66.43	12,445,170	16.59
Total Deposits	126,499,193	100.00	112,935,830	100.00	13,563,363	12.01

B. Loan Business

Unit: NT$1,000

Item	Dec. 31, 2012		Dec. 31, 2011		Increase (Decrease)	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Consumer Banking	60,624,393	70.12	53,621,519	64.98	7,002,874	13.06
Corporate Banking	25,839,664	29.88	28,895,782	35.02	(3,056,118)	(10.58)
Total Loans	86,464,057	100.00	82,517,301	100.00	3,946,756	4.78

C. Wealth Management Business

Unit: NT$1,000

Item	FY 2012		FY 2011		Increase (Decrease)	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Fee Income on Fund Transactions	273,798	40.20	360,023	54.05	(86,225)	(23.95)
Fee Income on Insurance Transactions	407,244	59.80	306,072	45.95	101,172	33.05
Total	681,042	100.00	666,095	100.00	14,947	2.24

D. Credit Card Business

Unit: NT$1,000; Cards

Item	Dec. 31, 2012	Dec. 31, 2011	Increase (Decrease)	
	No. of Cards / Amount	No. of Cards / Amount	No. of Cards / Amount	Percentage (%)
Cards in Circulation	536,374	602,072	(65,698)	(10.91)
Valid Cards	218,677	243,199	(24,522)	(10.08)
Revolving Credit Balance	1,550,822	1,667,930	(117,108)	(7.02)

E. Cash Card Business

Unit: NT$1,000; Cards

Item	Dec. 31, 2012	Dec. 31, 2011	Increase (Decrease)	
	No. of Cards/ Amount	No. of Cards/ Amount	No. of Cards/ Amount	Percentage (%)
Issued Cards	553,958	569,539	(15,581)	(2.74)
Activated Cards	379,225	394,172	(14,947)	(3.79)
Loan Balance	20,440,093	22,638,699	(2,198,606)	(9.71)

F. FX Business

Unit: US$1,000

Item	FY 2012		FY 2011		Increase (Decrease)	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Import	77,502	3.63	40,722	1.93	36,780	90.32
Export	38,236	1.79	28,632	1.36	9,604	33.54
Remittance & Exchange	2,017,655	94.58	2,041,444	96.71	(23,789)	(1.17)
Total	2,133,393	100.00	2,110,798	100.00	22,595	1.07

2. Annual Business Plans

(1) Consumer Banking Group

- Rename our cash card as "Flexible Card" and place a marketing focus on accommodating urgent funding needs in a flexible and timely manner; use advertising exposure to bring a fresh understanding of cash card to the general public so as to create a positive image of the Bank's cash card; modulate project experience in maintaining existing cash card customer groups; continue to segment and explore potential customer groups in order to increase drawdown rate and reduce card cancellation by customers.
- Adjust our credit underwriting policies where appropriate, and fine-tune scorecards and risk-based pricing models to achieve a well-balanced development among various customer groups; focus equally on asset quality and bankwide revenues to satisfy customer demands for working capital.
- Continue to launch credit card promotional campaigns to sustain customer spending and confidence in the Bank; organize segment-specific promotions based on customer attributes and roll out assorted offers based on types of consumption; boost installment payment business and meanwhile ensure both profitability and solid spending from credit card holders.

(2) Corporate Banking Group

- Realign and divide our corporate banking channels into Large Corporate Loan Center, District Corporate Loan Center and Developing Enterprises Loan Center to develop financing services for large-sized, medium-sized and small & medium-sized enterprises respectively; determine target industries for loan business and develop new products to accommodate all kinds of funding needs.
- Expand cross-strait banking and crediting business in Renminbi.

- Use both internal and external statistics to carry out analyses and incorporate external research on industry trends to regularly review and adjust our target industries as well as strategies regarding credit business development.
- Continue to expand corporate online banking services, explore multiple selling channels and increase operational efficiency so as to provide customers speedy and hassle-free services.

(3) Branch Banking Group

- Hold internal training courses on a regular basis for our financial consultants to increase their expertise, improve selling process and enhance both consulting and planning ability; hold external workshops from time to time on investment, wealth management and priority banking services to provide real-time information about investment markets; offer wealth management portfolios that suit customer needs so as to revitalize customer assets and carve out a larger niche in sales.
- Explore and target new customers through marketing programs such as customer referral and e membership; offer high-asset customers diversified and tailor-made services such as tax advice, transfer of assets, consulting services regarding legal and tax affairs in everyday life to satisfy clients' wide-ranging demands.
- Implement customer experience management to constantly refine our service quality; undertake internal process re-engineering to increase efficiency and improve services so as to build up our brand image as a professional service provider.
- Introduce Renminbi-related business and apply for official approval to conduct financial derivatives business to meet market demands; enable a prudent control of product risk to provide a diverse range of financial products and ensure balanced sourcing of operating incomes.

(4) Global market & Financial Institution Group

- Increase the scale of cash flows and credit lines with other financial institutions to explore new fields for profitability.
- Improve brand awareness and participate in global syndicated loans with an active approach.
- Enlarge the pool of our FX and bond dealers; elevate the efficiency of asset utilization by flexible financial operations.
- Take an active approach to make most appropriate arrangements of asset and liability positions to generate more fixed incomes.

3. Market Analysis

(1) Macroeconomic Overview & Outlook

Economic Growth Rate (%)(Note 1)			
FY 2012(p)		FY 2013(f)	
Fiscal	**1.26**	**Fiscal**	**3.59**
Q1	0.59	Q1(f)	3.26(Note 2)
Q2	(0.12)	Q2(f)	3.92
Q3(r)	0.73	Q3(f)	3.82
Q4(p)	3.72	Q4(f)	3.34

Note 1: Source: "National Income and Domestic Economic Outlook" issued by DGBAS on February 22, 2013; (r): Revised figure (p): Preliminary figure (f): Forecast figure

Note 2: The economic growth rate of the first quarter is revised to 1.54% according to the estimates of 2013 Q1 National Income Statistics released on April 30, 2013.

During the first half of 2012, the domestic economy was affected by the Eurozone crisis and global business climate, leading to a weaker overall economy and a sluggish export sector. From the second half, however, the world economy showed signs of a gradual recovery which assisted export trades to revive its momentum. The economic growth in the fourth quarter climbed to 3.72% and the annual economic growth closed at 1.26%.

Looking at 2013, while the global economy is moving toward stable-paced growth, the demands for electronic components of smartphones and tablet computers are expected to help restore the vitality in domestic export trades. Also, the consistently improving job market, growing consumer confidence and government's "Program for Strengthening Investment in Taiwan by Overseas Taiwanese Enterprises" to attract capital inflows back to the soil shall altogether benefit the local economic growth. According to the forecast released by Directorate General of Budget, Accounting and Statistics of Executive Yuan, the economic growth for year 2013 will exhibit a quarter-over-quarter increase with a projected annual growth rate of 3.59%.

(2) Business locations

As of December 31, 2012, the Bank has 49 domestic branches, an offshore banking unit (OBU), 6 consumer banking centers and 8 corporate banking centers. Our business locations are mainly in the northern region and offer a wide range of high-quality financial services.

(3) Future supply/demand conditions and growth in the market

A. Supply

In view of the highly competitive and saturated banking sector, the keen price competition resulted in thin profit margins along with relatively low return on assets. The average return of assets by the domestic banks in 2012 is merely 0.68% and the average interest rate spread by domestic banks is 1.42% low according to the sources from the Central Bank. With the deregulation of the cross-strait financial market, domestic banks may have more opportunities to explore the tremendous market and potential profits in mainland China, and yet the branches of Chinese banks will also enter our local competitions to attain part of the current market share. Further development of the local financial market still requires continuous observation and responsive measures in place to ensure its sustainable business operation and development.

B. Demand

In 2013, the global economy has begun to recover and is gradually stabilizing, accompanied by an upturn in domestic exports. In view of the government's ongoing implementation of the "Economy Power-up Plan" and relevant short-term measures, market demands for working capital are expected to rise accordingly. Overall, demands arising from the economic move shall assist the financial services sector to continue its business growth or achieve profit goals.

(4) Niches in market competition, advantages/disadvantages regarding business outlook and responsive measures

A. Advantages

- Niche products and higher interest rate spreads as compared with competitors.
- Foreign shareholders with world-class capability, a sound capital structure and the management team of excellence and expertise.

・Advanced human resources and innovation skills to keep rolling out new financial products.

B. Disadvantages

・Operating profits still consisting mainly of consumer banking products and assets risks subject to impact of market changes.

・Smaller size of assets and liabilities and limited room for business development.

・Few business locations and no overseas branch; limited momentum for reaping profits in the overseas markets.

C. Responsive measures

・Work vigorously to develop mortgage, corporate banking and treasury business so as to diversify operational risks.

・Continue to expand deposits and loan business to enlarge our pool of assets and liabilities.

・Plan and develop deposits and loans in Renminbi to increase our foreign exchange earnings.

・Seek strategic partnership to foster a wider and deeper market.

4. Research on Financial Products and Overview of Business Development

(1) Overview of development of major financial products over the last two years

Please refer to 1. (3) "Overview of Major Businesses"

(2) Expenditures on and results of research and development (R&D) in past two years and future R&D plans

A. Expenditures on Research and Development (R&D) in the past two years

Unit: NT$1,000

Year	FY 2012	FY 2011
Amount	41,065	53,137

B. Results of Business Development in past two years

Year 2011

・We completed and launched the first phase of our corporate online banking system, offering corporate clients online enquiries/transaction services and providing more marketing platforms for our corporate banking products.

・We expanded the functions of our corporate online banking system to satisfy corporations' assorted demands for cash management.

・We upgraded our FX import/export operating systems to enhance efficiency and effectively control risks.

・To satisfy corporations' and customers' demands for a receiving and paying agent, we set up a "payment platform" system to expand our channels of cash flow services.

・We constructed the Bank as the initiating bank to manage payments and collections under "Automated Clearing House" ("ACH") to achieve a tighter business relationship with our corporate clients and to shorten the payment collection process for corporations.

・We completed the stage scheduled for our brand new official website and internet banking interface. We enhanced online banking functions and provided a more user-friendly interface so as to meet customers' demand for "instant access to wealth management."

・In light of the fast growing prevalence of smart phones, we are the first among our competitors to launch "Cosmos Mobile Payment X-Card" which offers a safe, time-saving option and allow customers to access mobile payment services anytime anywhere. We expect to integrate our mobile banking services in 2012 and provide a mobile commerce platform that caters to customers' lifestyle.

- We promoted the debit function of ATM chip cards and collaborated with participating stores on joint marketing campaigns to add more value to our ATM cards.
- We rolled out several term deposit offers in concert with development of wealth management business to expand our wealth management customer base.
- We issued a co-branded EasyCard credit card with a built-in EasyCard electronic wallet. We also upgraded the system-on-chip that supports proximity, contactless transactions to align with new types of credit card payments.
- We launched easy loans, flexible installment loans, instant microenterprise loans, loans exclusively for former/existing customers and mortgage loans to meet assorted financing demands from various customer segments and microenterprise clients.

Year 2012

- In October 2012, we completed and launched the second phase of our corporate online banking system, delivering a broader array of transaction services for corporate clients so as to accommodate their genuine demands for cash management.
- We launched a marketing campaign to promote our "payment platform" and encourage more customer groups to use the said service so as to extend our payment gateway services by offering a comprehensive range of payment collection solutions.
- We worked actively to enlarge our pool of New Taiwan dollar and foreign currency deposits by rolling out promotions on corporate demand deposits in New Taiwan dollars and time deposits in US dollars. In addition, we continued to promote payroll transfer business to expand our customer base.
- We continued to promote our diversified mortgage services including wealth management-linked mortgage, super home mortgage and second lien mortgage.
- We rolled out general loans, loans for quality customers and professionals, promotional offers for excellent enterprises and organizations, personal loans bundled with payroll accounts to suit each group's specific funding needs.
- The Bank introduced the "Cosmos Mobile Payment X-Card" and is the first bank officially approved by the Financial Supervisory Commission to deliver mobile payment services. Meanwhile, XATM transfer and fee payment functions are newly added to enable broader applications of "Mobile Payment X-Card."
- We completed the planned stage of our "mobile banking system" and extended virtual, hassle-free service channels to accommodate customers' need for mobile banking and convenient access thereto.
- We rolled out a co-branded EasyCard credit card in collaboration with EasyCard Corporation and launched the Macaroon Credit Card, which created a marketing buzz. We improved product features and explored channels through horizontal alliance in an attempt to boost the number of credit cards in circulation as well as card spending.

C. Future Plans for Research and Development

Unit: NT$1,000

Annual Plan	Current progress	Invested R&D expenses as of April 2013	Estimated R&D expenses in 2013	Estimated the completion date	Key factor affecting the success of future R&D
CBC interbank funds transfer system	Completed	246	-	March 2013	In conformity with CBC systems
Inclusion of irregularity reporting function for FX systems	Completed	330	-	March 2013	In conformity with requirements by the requesting units
Enhancement of legal collection management system	Completed	174	-	March 2013	In conformity with requirements by the requesting units
Revision of Flexible Card issuance system software	Work in progress (80%)	1,344	336	October 2013	In conformity with requirements by the requesting units
Trade date accounting system for bonds	Work in progress (70%)	380	285	July 2013	In conformity with requirements by the requesting units
Accounting system for foreign currency financial instruments	Work in progress (70%)	6,400	4,800	October 2013	In conformity with requirements by the requesting units
APPs for mobile banking system	Work in progress (60%)	-	1,840	November 2013	In conformity with requirements by the requesting units
Operation project for second generation national health insurance	Work in progress (60%)	640	440	October 2013	In compliance with FSC requirements
Trade date revision program for foreign currency bonds system	Work in progress (50%)	-	431	November 2013	In conformity with requirements by the requesting units
New CBC-compliant reporting functions for OBU	Work in progress (50%)	500	500	September 2013	In conformity with CBC systems
JCIC system revision project requested by financial examination	Work in progress (50%)	225	225	September 2013	In compliance with FSC requirements
Document image system project for bills and remittances	Work in progress (40%)	2,634	3,616	December 2013	In conformity with requirements by the requesting units
Document image management system for cash card	Work in progress (30%)	-	1,580	November 2013	In conformity with requirements by the requesting units
Data warehouse authorization and report upgrade	Work in progress (30%)	420	980	November 2013	In conformity with requirements by the requesting units
Third phase of corporate online banking development	Work in progress (20%)	3,840	20,660	Year 2014	In conformity with requirements by the requesting units
RMB cash withdrawal at ATMs	Under discussion & planning	-	1,936	June 2013	In conformity with requirements by the requesting units

Annual Plan	Current progress	Invested R&D expenses as of April 2013	Estimated R&D expenses in 2013	Estimated the completion date	Key factor affecting the success of future R&D
New functions for individual negotiation and debt settlement system	Under discussion & planning	-	2,870	November 2013	In compliance with Personal Information Protection Act
Credit card merchant acquiring business	Under discussion & planning	-	2,679	October 2013	In conformity with requirements by the requesting units
Total		17,133	43,178		

5. Long-term Plans for Business Development

(1) Provide integrated financial services for corporations.

(2) Provide tailored financial services for individuals.

(3) Form a comprehensive system network comprised of profitable service channels.

(4) Continue to expand business scales.

VIII. Employees

1. Composition of Employees

Year		2012	2011	Mar. 31, 2013
No. of Employees		1,813	1,855	1,743
Average Age		37.45	36.37	37.88
Average Length of Service		7.72	7.13	8.18
Education (%)	Master	10.59	9.22	11.24
	Bachelor	81.03	82.37	80.90
	Senior High School	8.11	8.14	7.52
	Under Senior High School	0.27	0.27	0.34

2. Employee Code of Conduct or Ethics

To ensure all employees observe a consistent code of conduct, the Bank promulgated the "Work Rules of Cosmos Bank," in which the service rules are clearly defined and disclosed on the front page of intranet for all employees' reference. In addition, we have established another code of conduct for salespersons to abide by. The Code provides that our employees should make every effort to achieve efficiency, accuracy and be devoted to their job duties on the principles of teamwork, conformity and enthusiasm. Also, all employees should abide by statutory requirements and disciplines, and should not engage in improper lending, investments, transactions or ill profits for their own interest or others'. Meanwhile, the Code also stipulates that we have a system to reward employees who demonstrate good performance, strive for benefits of the company or prevent embezzlement whereas those who violate regulations or commit negligence at work should receive disciplinary actions. Accordingly, the management team and all employees have common ground that benefits both the promotion of our business and management of the entire organization.

3. Protective Measures for Work Place and Employee Safety

(1) We carried out daily security maintenance in conformity with the standards promulgated by the Financial Supervisory Commission and the Bankers Association. Our security system is linked to the police authorities and security guards are stationed at respective business units to ensure security. Some security procedures are outsourced to professional agents where practically possible.

(2) "Labor Safety & Health Supervisor," "Fire Security Administrator" and "Emergency Rescue Officer" are assigned to work in branches and offices, and, in the event of any staff relocation, the Bank will assign other dedicated staff to attend training and to fill the vacancy immediately.

(3) We formulated the annual "Employee Safety and Health Management Plan" in accordance with the "Rules of Labor Safety and Health" and conducted on-site supervision in branches on an irregular basis to fully review suggestions for improving workplace.

(4) The Bank formulated the "Rules Governing Processing of Official / Bereavement Leaves" to ensure that all employees are well looked after.

(5) We joined the Security Maintenance Fund administered by the Bankers Association through which more comprehensive protection are provided to employees.

(6) X-ray examination was conducted in November 2012 for employees located in Chungho Office.

(7) In 2012, we arranged initial and recurrent education & training for Fire Security Administrators.

(8) The Bank prepared 26 articles on occupation safety & health and published them in form of internal e-mails from time to time to educate everyone about labor safety & health issues.

(9) During June and December 2012, we carried out testing on the quality of our work environment in all offices and received a satisfactory result.

IX. Corporate Responsibilities and Moral Behavior

1. We care about employee rights

The Bank has launched the "We care about everyone" campaign to encourage our staff to join group activities, build up mutual understanding and grow centripetal force. We also encourage all employees to take advantage of "family day" and strike a balance between work and family life. Other than providing good welfare benefits for our employees, internal regulations governing human resources are in strict compliance with the Labor Standards Act and other relevant regulations. We also carry out regular self-audits to ensure effective performance and results.

The Human Resource Management Committee, 4 members of which are from the Union, was established to handle issues associated with major influences on employees' rights and benefits.

In addition, the Bank's senior management including Chairman, President and Head of Human Resources communicate with the representatives of the Union on a regular basis. Whenever there is any issue reported by the Union related to employees' rights, we can always handle the issues in a timely and fair manner, keeping our interactions with the Union benign and direct. The Bank also provides channels to facilitate bilateral communication (such as holding Cosmos Exchange Employee Townhall Meetings, publishing the quarterly magazine "Cosmos Express," offering email boxes for communication and e-papers). We care about and listen to our employees.

2. Sponsored the 16th "Finance Seminar for University Students Nationwide"

The 16th "Finance Seminar for University Students Nationwide" held by Department of Finance of National Taiwan University aim to provide opportunities for students who are interested in the banking and financial sector to gain relevant knowledge about finance. As a sponsor of this event, we hope to see accurate financial knowledge take root and training programs take place on campus to develop more talents for the financial services field so as to bring forth positive, proper influence on the domestic financial environment.

3. Purchased products manufactured by Fushan Grange as birthday presents for our employees

Fushan Grange is a project hosted by Mrs. Mei-Ling Huang, a retired principal of Fushan Elementary School in Wulai District, New Taipei County, to promote the "Education Savings Plan" as a way to encourage the Atayal aborigines to plan on savings for their children's higher education. Fushan Grange is also dedicated to promoting local agriculture, reducing imports, sustaining national interests, supporting local produce, maintaining a clean environment and nourishing our ecology. We have been purchasing Fushan Grange's produce as birthday gifts for our employees. We hope the success of the "Education Savings Plan" will help more aboriginal children receive complete education and draw public attention to the education problems faced by the aboriginal children.

4. Held the "2012 Young at Heat Lollipops- Dream Building Project by Cosmos Bank/ United Way of Taiwan" in collaboration with United Way of Taiwan

As low birth rate and aging population is becoming a serious problem nowadays, United Way of Taiwan (UWT) introduced the "Aging 360" service concept, which aims at generation integration and living quality improvement for elders. To deepen the root of the "Aging 360" concept, the Bank partnered with United Way of Taiwan for the second consecutive year to organize the "Aging 360 - Dream Building Project by Cosmos Bank/United Way of Taiwan". With a total prize of NTD 320,000, we encourage university and college students nationwide to team up and deliver various creative ideas about how to help elders regain their social participation.

Aspiring to become a helpful neighbor to the local communities, the Bank held the aged care events not only to draw public attention to the aged care issues but also to encourage the youngsters to show their care for elders and our society by broadening their vision.

5. Provided "Free Healthcare Clinic and Cancer Screening" in conjunction with National Taiwan University Hospital

On April 10 and April 11, 2012, the Bank organized the "care for our neighbors" campaign and provided free healthcare clinic for coach drivers and passengers at Kuo-Kuang Highway Coach West Terminal A and B. Considering that coach drivers often work overtime due to rotating shifts and suffer from driver fatigue from time to time, we joined National Taiwan University Hospital in holding the "care for our neighbors" campaign and arranged free health clinic to demonstrate our care for driver health and passenger safety. By organizing the free clinic event, we hope that more people and those in need can benefit from high-quality health examinations provided by National Taiwan University Hospital, and help them embrace a truly beautiful life by placing equal emphasis on wealth and health.

6. Sponsored the 4th AIESEC Youth Influence Forum

Talent training and development is essential to national constructions. We sponsored the 4th AIESEC Youth Influence Forum as part of our efforts to raise public awareness and promote more interaction and communication between the current and future leaders. We hope such initiative can help pass down valuable experience from senior leaders to future generations so as to bring a global perspective and broad vision to a greater number of youth across Taiwan and thereby create positive influence on the society.

X. Labor - Management Relations

1. Employee Welfare, Retirement Policy and Implementation, Agreements between Labor and Management, Measures for Securing Employees' Benefits and Implementation

(1) Welfare Benefits for Employees and Implementation

To build a good relationship between labor and management and to strive for mutual benefits, we offer the following welfare for our employees: higher deposit rates for employees, discounts on fee charge of financial products, bankers blanket insurance, labor insurance, national health insurance and group insurance (including regular life insurance, accident insurance and medical insurance- all subsidized by the Bank), and contracted and qualified doctors working in shifts to offer on-site medical consultation, health check, event subsidy, habiliment for every employee as well as uniforms. In addition, we organized the Employee Welfare Committee pursuant to related laws to take charge of planning welfare matters for everyone with the pool of welfare funds appropriated by the Bank. On the other hand, the "We Care" Team also holds several meetings to interact with our employees and listen to their opinions to facilitate bilateral communication. We also provide birthday leave, birthday gifts, subsidies for department gatherings, and year-end banquet.

(2) Retirement Policy and Implementation

The Bank's retirement system is operated in accordance with the Labor Standards Acts and pertinent regulations of labor pensions.

(3) Agreement between Labor and Management

- The established Human Resources Management Committee and Pension Committee consist of representatives from both the Union and the Bank to jointly attend meetings and participate in management.
- The Bank is communicating intensively and regularly with the representatives of the Union based on the Collective Bargaining Agreement in the hope of achieving a consensus to further safeguard the rights of all our employees.

(4) Key Talent Retention Program

We launched a Key Talent Retention Program to meet our business demands. Employees eligible for this program should be nominated and then approved by the President. Qualified employees may lodge a resignation application between April 1, 2012 and June 30, 2013 and two months prior to the resignation effective date. Severance pay is calculated by service years until June 30, 2010. Qualified employees will receive a 2 months' average wage for each service year. An employment period of less than 6 months will be calculated as 6 months, and a period that is equal to or more than 6 months is counted as one service year. Service years after July 1, 2010 are not counted in calculation of severance pay.

2. Any losses incurred from disputes between labor and management for the year ended 2012 and as of the printing date of this annual report, and disclosure of current and projected losses and countermeasures:

With respect to the disputes over the calculation of average wage for certain former employees' severance pay, the litigation process has been completed and related lawsuits were successfully settled.

XI. Important Contracts

Nature of Contract	Counterparty	Effective and Termination Date of Contract	Major Contents	Restriction Clause
Services Outsourcing Contract	International Business Machines Corporation (IBM), Taiwan	10 years from the effective date of this contract(2012.10.31)	Outsourcing services include data processing center operations, maintenance and enhancement of application systems, internet management, information desk for system management and onsite supports, disaster recovery services, project management office and service level management.	-

XII. Risk Management

1. Organizational Framework of Risk Management

The risk management of the Bank aims at creating an optimal balance between risks and returns, facilitating the development of sound businesses and maximizing the interest of our shareholders. The organizational framework of risk management consists of the Board of Directors, the Risk Committee, the Risk Management Committee, the Asset and Liability Management Committee (ALCO), the Credit Committee, the Risk Management Department, the Audit Department, the Legal Department, the Credit Administration Group and credit underwriting units thereunder and various business administration units.

The Board of Directors is ultimately responsible for bank-wide risk management. Under the Board sits the Risk Committee consisting of directors appointed by the Board to supervise risk management on behalf of the Board. Authorized by the Board of Directors and the Risk Committee, the President and business related committees thereunder are responsible for formulating regulations governing identification, evaluation, disclosure, reports, monitoring and mitigation of various risks, as well as relevant operating procedures and internal control systems to ensure risk management policies are duly followed and implemented.The Risk Management Department is independent of business units to monitor credit, market, operational, liquidity and other risks through the implementation of risk identification, measurement, disclosure and reporting mechanisms under the Basel Accord. It also periodically generates various risk management reports for the senior management's decision-making process. The Legal Department is responsible for the implementation of legal risk management and regulation compliance process. All business units under the President are responsible for the enforcement of risk management policies and the establishment of proper internal control procedures and SOP within their job responsibilities, as well as to support the implementation of various risk management projects for business needs. The Audit Department is in charge of auditing the compliance of internal and external regulations and the enforcement of internal control systems by every department.

2. Risk Management Policy

(1) The pursuit of long term sustainable operation is the goal of the Bank's risk management; we refer to the best practices of the Basel Accord to develop a comprehensive risk assessment framework and capital adequacy management to ensure the Bank meets the minimum statutory capital requirements to withstand the impacts on capital under various stress scenarios.

(2) The Bank's lending strategy aims to balance profitability and risk diversification. Our credit portfolios are divided equally among qualified retail loans, corporate loans and mortgage business. We segment customers into different risk grades to maintain the overall credit risk within an acceptable range. Besides, the Bank aggressively reinforces its debt claims on lending to small & medium enterprises (SME) by leveraging the Small & Medium Business Credit Guarantee Fund (SMEG) to mitigate the impacts of customers' default risk and to save risk-based capital. In addition, the Bank is committed to the improvements of credit underwriting and review processes, the collateral management, the development and application of risk management tools, and the enhancement of credit risk management systems with the objective to effectively balance asset quality and returns on risk.

(3) Liquidity, security and profitability are the major objectives of our asset and liability management. In addition to reviewing and analyzing the maturity structure of assets and liabilities on a regular basis to dynamically maintain the funding gaps in proper levels. The Bank sets various interest rate risk limits to monitor and mitigate the impacts on its cost of fund and profitability by the fluctuations in market rates. While the ceilings and management procedures on investment in financial instruments are established, we use various market risk

sensitivity indicators including value at risk (VaR) limits and stress testing to monitor risk exposure and profits & losses so as to prevent our investment positions from undertaking excessive risks caused by the fluctuations in market prices.

(4) The Bank establishes guidelines, disciplines and reward / punishment measures to duly implement risk management culture on a bank-wide level. Every business has set up SOP to enhance the internal control and IT systems, and for the timely and accurate reporting of risk information. In addition, the Bank monitors and routinely reviews operational risks through early warning mechanisms consisting of risk appetites, key risk indicators, and operational risk / loss events so that corrective measures can be taken in time.

3. Risk Measurement Standards

(1) Credit Risk: The Risk Management Department reports to the Risk Management Committee, the Risk Committee and the Board of Directors on a regular basis the portfolio risk management, presenting the assessment of credit risk indicators and the reviews of risk management performance, including the trend of delinquency indicators and credit losses to keep monitoring the changes in asset quality. Assessments of credit risk capital requirement and stress testing are also being carried out regularly.

(2) Operational Risk: In the event of any operational risk events, all units should report through the Operational Risk Event Reporting System pursuant to the procedures based on the classification of operational risks and the types of loss events stipulated in the Basel Accord. By doing so we are able to completely collect the operational risk events for the assessment, analysis and monitor of operational risks. We can also understand the appropriateness of current operating processes, IT systems and staff training and to take measures for improvement. Through self-assessment of risk and control, the Bank identifies, evaluates and measures the major risks and control points of each internal unit to analyze, discuss and determine key risk indicators for the purpose of further monitoring, reporting or information disclosure.

(3) Market Risk: Market risk management report covers fluctuations of risk on trading and banking books, with risk indicators including positions by notional amounts, fair market value, sensitivity indicators and VaR.

(4) The management of financial derivatives is based on the Bank's "Guidelines for Conducting Financial Derivatives Transactions" to process relevant matters including risk assessment and information disclosure.

(5) Liquidity Risk Management: Other than periodical evaluation and reporting of liquidity management information to the competent authorities, the Bank regularly monitors the trend of liquidity ratios, reviews the stability of all funding sources and assesses the projected changes in liquidity positions, and based on which to adjust long & short term asset allocation or funding strategies.

(6) Analysis of Interest Rate Sensitivity: In addition to routinely evaluating and reporting the analyses of interest rate sensitivity to the competent authorities, we periodically assess the impacts of interest rates movement on our earnings and economic value on the balance sheet as a reference to adjust our asset and liability management strategies.

(7)Assets and Liabilities Maturities Analysis: We regularly analyze the maturity structure of assets/ liabilities, monitor gap limits and report gap-related information to the competent authorities. In addition, periodical assessments of the stability and diversification of deposits are carried out with indicators including early termination rates, trends of renewal rates, dependency on large deposits and the percentage of deposits covered by insurance, etc. which are also reference of liquidity management strategies.

4. Qualitative & Quantitative Information on Various Risks

(1) Credit Risk Management System and Capital Requirement

A. Credit Risk Management System

Fiscal Year 2012

Item	Content
1. Credit Risk Management Strategies, Targets, Policies and Procedures	(1) Management Strategy For loan business, we continue to pursue a well-balanced development between consumer banking, mortgage, and corporate banking. Also, we make every possible effort to enhance our core profitability and improve asset quality. On consumer banking, we aim to accelerate growth of personal loan balance and promote microenterprise financing projects while maintaining the size of cash card and credit card business. As to mortgage loans, we are careful in choosing good-quality, high-asset customers and at the same time we cement relations with existing customer groups. In respect of corporate banking, our corporate lending policy lays equal focus on large-sized, medium-sized and small & medium-sized enterprises. We actively expand foreign exchange loans and cross-strait banking business in order to reinforce our corporate lending structure and size of credit portfolios. In addition, we continuously strengthen investment and crediting relations with other financial institutions, participate in global syndicated loans and source more offshore financing opportunities. Moreover, we aggressively explore niche markets by leveraging our capability of developing and applying credit risk models. We carry out accurate evaluation of customers' risk grades, insolvency and credit spreads to select target customers so as to achieve business growth, boost profits and ensure risk control. (2) Management Objectives The objectives of our credit risk management are to reasonably identify, evaluate, disclose and effectively monitor bankwide credit risk. We also adjust our credit risk structure by taking into account changes in overall economic environment so as to ensure the risk undertaken by our credit portfolios remains within the Bank's risk appetite. (3) Management Policy The purposes of credit risk management policy are to establish a series of standardized monitoring and controlling procedures for the identification, measurement, disclosure and reporting of credit risk, including the credit standards for target customers, underwriting procedures, loan approval / rejection procedures, procedures for approving exceptional cases, risk monitoring and management, credit review, management of non-performing loans, and the requirements and administration of document / information. (4) Management Procedures Responsible units carry out the following management procedures in accordance with the preceding credit risk management policy: a. Credit Check and Assessment We request necessary proof documents in accordance with the target customer credit standards to select clients correctly and to maintain the portfolio quality within an acceptable range. b. Loan Approval The authorized credit approvers may grant credit lines to qualified customers who pass credit check and assessments under the Bank's credit limit structure and credit authorization system. The Bank organizes its credit limit structure and credit authorization system in compliance with the Banking Act and other relevant statutory regulations on credit ceilings extended to an individual counterparty, the same related enterprise / group, stocks as collateral, and credit risk tolerance by industry or by country / region. We regularly review the authorized limits granted to each credit approver based on their individual expertise and status of asset quality control.

Item	Content
	c. Interim and Follow-up Credit Management For corporate banking, we keep closer watch on the financial status of borrowers through the account officer system and periodic credit review. We also carry out regular risk assessment reports on credit portfolios and set up an early alert mechanism to take preemptive measures in response to any change in the economies and asset quality so as to realign our strategies on business development. As to consumer banking, we track and monitor changes in asset quality through regular assessment of asset quality. In addition, problem loans are under centralized management supported by IT systems, application of analysis models and regular reviews to improve debt recovery rate and expedite the collection of non-performing debts. d. Risk Report and Information Disclosure Risk Management Department is responsible for measuring risk and preparing a monthly / quarterly risk management report which covers assessment of risk management indicators and risk-based capital requirements. The reports are submitted to Chief Risk Officer, Risk Management Committee/ President, Risk Committee and the Board of Directors. e. Development, Application and Validation of Risk Information System To effectively assess customers' default risk, we undertake intensive development of quantitative risk assessment models for reference when making decisions on credit extension. We have devised the credit scoring models by product category and characteristics of borrowers for selection of new clients, risk-based pricing and management of credit lines. We also apply analysis of customer behavior models to develop debt collection strategies for delinquent loans. To enhance the effectiveness of our credit assessment and consistency of underwriting standards, the Bank built up an electronic credit assessment system to elevate its operational efficiency and level of electronic information processing as well as improvement on quantitative models. We have periodic validation mechanism for risk assessment models. The analysts who are not the developers are responsible for validating effectiveness of a model to evaluate whether the model performs well and make modification where required.
2. Organization and Framework of Credit Risk Management	The Board of Directors is ultimately responsible for credit risk management. Under the Board sits the Risk Committee comprised of directors appointed by the Board to supervise risk management on behalf of the Board. Under the President are the Risk Management Committee and the Credit Committee which take overall charge of planning, review, implementation and monitoring of bank-wide risk management infrastructure and system operations. The Risk Management Department is responsible for implementing risk management policies and procedures and generating risk management reports for the Chief Risk Officer, Risk Management Committee / President, Risk Committee and the Board of Directors on a regular basis. The underwriting units perform credit check and assessment based on the credit criteria established for our target customers which are set up in the underwriting policies. In addition, credit authorities are delegated to credit officers of various levels based on the Banks' "Guidelines Governing the Delegation of Credit Authority". Through a collegiate system, the Credit Committee deliberates on important loan applications involving large credit lines by reviewing the proposed credit limits, terms and conditions in order to assure the overall asset quality. The Bank also establishes guidelines on credit review / renewal to re-examine the loan disbursement procedures so as to ensure the credit underwriting system and policies are fully observed.
3. Scope and Characteristics of Credit Risk Reporting and Measurement System	To ensure the Board of Directors is fully aware of the Banks' credit risk profile, the Risk Management Department reports regularly to the Risk Management Committee, the Risk Committee and the Board of Directors on assessment of credit risk indicators and review of risk management performance, including risk asset portfolios, delinquency and loss ratios, and evaluation of capital adequacy in order to monitor the changes in credit asset quality.

Item	Content
4. Policies on Credit Risk Hedging or Mitigation, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Risk Hedging and Mitigation Instruments	The Bank's strategies on credit risk hedging or mitigation are evaluated based on the risks associated with the borrowers and transactions. Qualified collateral with good liquidity and sufficient value or guaranty provided by credit guarantee institutions (such as SMEG) are used to enhance the security. Financial derivatives are not utilized by the Bank as an instrument to mitigate credit risks for the time being. Regarding risk hedging and monitoring, we demand compulsory legal documents and verify their validity on contract signing. In addition, we conduct on-site inspections of collateral routinely, and re-appraise collateral value when necessary in order to determine whether additional collateral or credit line adjustment is needed.
5. Approach for Official Capital Requirement	Based on "Calculation Method and form for Equity Capital and Risk Weighted Assets of Banks - The Standardized Approach for Credit Risk"

B. Credit Risk Exposure and Capital Requirement after Risk Mitigation based on the Standardized Approach

Unit: NT$1,000
Base Date: March 31, 2013

Types of Exposure	Exposure after Risk Mitigation	Capital Requirement
Sovereign Countries	36,790,102	-
Non-central Government Public Sectors	-	-
Banks (including multilateral development banks)	7,234,416	207,378
Enterprises (including securities and insurance firms)	24,307,824	1,919,263
Retail Debts	55,162,422	3,233,697
Real Estate for Residential Use	21,940,115	1,267,618
Equity Investment	531,453	170,065
Other Assets	17,202,605	1,295,322
Total	163,168,936	8,093,343

(2) Asset Securitization Risk Management System, Exposure, and Capital Requirement

The Bank did not act as an originator, or as a credit enhancement provider for any asset securitization case. Nor did it have any investment in asset-backed securities.

(3) Operational Risk Management System and Capital Requirement

A. Operational Risk Management System

Fiscal Year 2012

Item	Content
1. Operational Risk Management Strategies and Procedures	The Bank's operational risks are defined as risks associated with misconduct or errors caused by internal operations, personnel and systems, or risks resulted from external events that incur losses to the Bank. Operational risk includes legal risk but exclude strategic risk and reputational risk. To effectively manage operational risks, the Bank has set up a prudent internal control system and standard operational procedures for routine businesses. We have also designed reviewing mechanisms and IT systems for risk control. We construct internal audit systems and perform self-audit on regular basis or randomly, and perform analyses of risk events to verify and review the recorded operations of the said mechanisms and the effectiveness of the system. Furthermore, the Bank establishes emergency recovery plans and remote back-up systems in conformity with the competent authorities' requirements to lower the potential losses due to major accidents and to ensure the Bank's continual operation. For non-routine businesses and new products / businesses, by segregation of duties we perform full assessment and identification of risks beforehand, and proceed with continuous (follow-up) monitoring and necessary review / revision afterward to ensure all operational risks involved are being assessed and monitored appropriately. For outsourced businesses, the Bank follows the competent authorities' requirements and audits the entrusted vendors for relevant operations in accordance with internal policy to ensure the compliance with internal and external regulations and to protect the interests of the Bank and its customers. The Bank also puts great emphasis on entrenching and implementing risk management culture. We continue to educate and train our employees to elevate their professional skills, knowledge and understanding of laws / regulations so that they can competently perform their jobs.
2. Organization and Framework of Operational Risk Management	The Board of Directors is ultimately responsible for operational risk management. Under the Board sits the Risk Committee consisting of directors appointed by the Board to supervise risk management on behalf of the Board. Under the President lies the Risk Management Committee which takes overall charge of planning, review, implementation and monitoring of bank-wide risk management infrastructure and system operations. With respect to the current organizational framework of operational risk management, the administration units of head office are responsible for implementing related operating procedures to enforce the internal control systems and to monitor operational risk. All units shall report operational risk events in accordance with the required procedures. The administration units of head office will then supervise the improvement measures and ensure they are being implemented effectively by each unit in order to control the operational risk events or losses repeat. The Legal Department is responsible for the planning and implementation of legal risk management and legal compliance system of the Bank. The Audit Department is in charge of independent auditing to ensure all business guidelines are being duly observed. To enhance our operational risk management and to be in compliance with the supervisory requirements for Pillar II under the Basel Accord, the Bank has not only set up a dedicated unit to manage operational risk but also established standardized supervisory / controlling methods and internal guidelines for the identification, measurement, disclosure and reporting of operational risks. Risk management reports are submitted to the Chief Risk Officer, the Risk Management Committee / the president, the Risk Committee and Board of Directors on a regular basis.

Item	Content
3. Scope and Characteristics of Operational Risk Reporting and Measurement System	The Bank has set up bank-wide guidelines on operational risks reporting based on business categories and types of loss events defined in the Basel Accord. All units should report operational risk events pursuant to the required procedures so that we can understand the appropriateness of current operating procedures, IT systems and staff training, and to propose and implement measures for improvement. The Bank has been carrying out Risk and Control Self-Assessment (RCSA) across all units and trough a step-by-step, comprehensive review to confirm whether operating procedures and control points are properly established. We also set up key risk indicators (KRI) for major operations of business units as well as bank-wide in order to tighten the control of operational risk and construct an effective early warning mechanism.
4. Policies for Operational Risk Hedging or Mitigation, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Risk Hedging and Mitigation Instruments	In compliance with the competent authorities' regulations and based on our internal analysis, the Bank acquires insurance coverage (e.g., bankers blanket insurance, accident insurance and fire insurance) to mitigate the operational risks that might cause major loss impacts to the Bank. We also enhance our capability in evaluating, monitoring, and improving risks so as to ensure the risks undertaken by the Bank are within an acceptable range and to provide important reference for re-alignment of our risk management strategy.
5. Approach for Official Capital Requirement	The Bank adopts the Basic Indicator approach to calculate the capital requirement for operational risk.

B. Capital Requirement for Operational Risk

Unit: NT$1,000

Base Date: March 31, 2013

Fiscal Year	Operating Gross Profit	Capital Requirement
2012	5,516,711	-
2011	5,207,575	
2010	5,804,727	
Total	16,529,013	826,451

(4) Market Risk Management System & Capital Requirement

A. Market Risk Management System

Fiscal Year 2012

Item	Content
1. Market Risk Management Strategies and Procedures	To enhance the bank-wide communication and integration of market risk information, and to control the negative impacts from expected or unexpected incidents on our capital or earnings, the Bank not only follows statutory regulations, but also sets up limits for nominal positions and VaR based on each year's budget, earning target and business development plan. The proposed limits for the trading positions of the Treasury Department shall be reported to the Board of Directors to seek approval whereas sensitivity limits and stop-loss limits require review and approval from the ALCO. The Settlement Department evaluates the profits and losses derived from the held positions on a daily basis. The Risk Management Department performs day-to-day monitoring of risk exposure and regular stress tests to prevent the Bank from undertaking excessive risk caused by the fluctuations in market prices, and reports to the senior management and the Risk Management Committee on a regular basis.

Item	Content
2. Organization and Framework of Market Risk Management	The Board of Directors is the ultimately responsible for market risk management. Under the Board sits the Risk Committee which consists of directors appointed by the Board to supervise risk management on its behalf. Under the President are the Risk Management Committee and the ALCO which take overall charge of planning and implementing market risk management infrastructure and operating systems. The Risk Management Department is responsible for assisting the Risk Management Committee and the ALCO in setting up market risk management policies and their amendments, as well as implements the approved framework of market risk management for the identification, measurement, disclosure and reporting of market risks. The Treasury Department reports to the ALCO on management of bank-wide assets and liabilities on a monthly basis. The Settlement Department is responsible for the daily monitoring of traded positions and investment limits. The Audit Department is in charge of providing independent assessment of the Bank's risk management procedures.
3. Scope and Characteristics of Market Risk Reporting and Measurement System	The scope of our market risk measurement mainly covers the positions in the trading book which are classified into three major categories including interest rate, foreign exchange and equity securities sorted by their risk characteristics. The Bank established a VaR measurement system for each category in order to monitor potential impacts of market price fluctuations on the positions held by the Bank. Also, to enhance liquidity of the held positions, the Bank has set up indicators to monitor turnover limits so as to adjust relevant risk strategies in a timely manner. For assets and liabilities on the banking book, the Bank quantifies the potential impacts of interest rate fluctuations on our economic value and earnings on accounting book based on interest rate sensitivity gaps. The Bank also sets up limit management targets for reference of planning strategies on asset and liability management. The Risk Management Department communicates with the business administration units on exposure quantification and compliance with risk limits regularly in order to enhance our communication on risk information and early warning effects. In addition, it reports market risk management, including implementation of policies and measurement of risk exposure, to the Risk Management Committee/President, the Risk Committee and the Board of Directors.
4. Policies for Market Risk Hedging or Mitigation, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Risk Hedging & Mitigation Instruments	The purpose of hedging is to prevent the Bank from suffering the underlying risks associated with the held assets, liabilities or trading positions. Before entering a hedging transaction, we evaluate our risk exposure on assets or liabilities and assess risk mitigation against risk effectiveness.
5. Approach for Official Capital Requirement	Based on "Calculation Method and form for Equity Capital and Risk Weighted Assets of Banks - The Standardized Approach for Market Risk".

B. Capital Requirement for Market Risk

Unit: NT$1,000
Base Date: March 31, 2013

Types of Risk	Capital Requirement
Interest Rate Risk	4,421
Equity Securities Risk	45,548
Foreign Exchange Risk	83,523
Commodities Risk	-
Total	133,492

(5) Liquidity Risk

A. Maturity Analysis of Assets and Liabilities

a. Maturity Analysis of Assets and Liabilities-NTD

Unit: NT$1,000
Base Date: March 31, 2013

	Total	Remaining Period to Maturity					
		0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Major Capital Inflow on Maturity	143,524,431	13,847,512	23,523,401	11,437,847	11,645,160	17,080,197	65,990,314
Major Capital Outflow on Maturity	170,073,880	9,151,494	11,593,907	24,532,623	29,709,974	44,955,743	50,130,139
Gap	(26,549,449)	4,696,018	11,929,494	(13,094,776)	(18,064,814)	(27,875,546)	15,860,175

Note: The above amounts included only New Taiwan dollar amounts held by the head office and domestic branches of the Bank.

b. Maturity Analysis of Assets and Liabilities-USD

Unit: US$1,000
Base Date: March 31, 2013

	Total	Remaining Period to Maturity				
		0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Major Capital Inflow on Maturity	386,942	112,649	33,277	24,213	2,500	214,303
Major Capital Outflow on Maturity	380,628	48,490	75,506	50,990	104,618	101,024
Gap	6,314	64,159	(42,229)	(26,777)	(102,118)	113,279

Note: The table includes assets and liabilities denominated in USD held by head office, domestic branches and Offshore Banking Unit (OBU).

B. Method of Liquidity Management: The Bank manages liquidity risk in accordance with "Directions for Auditing Liquidity of Financial Institutions." The annual liquidity reserve for year 2012 was 19.74%, which is higher than the statutory ratio of 10%.

XIII. Privately Placed Securities

1. On November 23, 2012, the first extraordinary stockholders' meeting approved to issue common shares by private placement within a total of 100 million shares.

2. As per resolution of the 7th Term 37th Board of Directors Meeting on April 12, 2013, the common stock under the first private placement is priced at NT$13.93 per share.

XIV. Audit Committee Report of the 2012 Annual Financial Report

Statement by Audit Committee

2013 Annual Stockholders' Meeting
Cosmos Bank, Taiwan:

The business report, financial statements, and proposal of profit or loss appropriation for the year 2012 were prepared by the Board of Directors. The abovementioned business report, financial statements and proposal of profit or loss appropriation, after examined by the Audit Committee of the Bank, are deemed to fairly present and conform to the financial status of Cosmos Bank. This report is hereby issued in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

Cosmos Bank ,Taiwan

Independent Director:

Lin Hsien-Lan

Wang Wen-Yu

Lin Hsiou-Wei

Singapore

Financial Review

Independent Auditors' Report

The Board of Directors and Stockholders
Cosmos Bank, Taiwan:

We have audited the accompanying balance sheets of Cosmos Bank, Taiwan as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As stated in note 4(l) to the financial statements, the Bank signed individual contracts with asset management companies in 2006 to sell non-performing loans. Based on the Law Governing Mergers of Financial Institutions and Tai-Cai-Rong-(3)-Zi No. 0913000051 issued by the Ministry of Finance on March 8, 2002, the losses on these sales were amortized using the straight-line method over 5 years. However, it was not in accordance with generally accepted accounting principles in the Republic of China. The unamortized balance was recorded as deferred losses on the sale of non-performing loans. Had these losses not been deferred, the loss after tax would have decreased by $2,795,630 thousand for the year ended December 31, 2011.

In our opinion, except for the effect of the deferred loss on the sale of the non-performing loans mentioned in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Cosmos Bank, Taiwan as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years ended December 31, 2012 and 2011, in conformity with the Guidelines Governing the Preparation of Financial Reports by Public Banks, the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

KPMG

Mei, Yuan-Chen
CPA:
Gau, Wey-Chuan

Taipei, Taiwan, R.O.C.
February 26 , 2013

Note to Readers

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

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

COSMOS BANK, TAIWAN

Balance Sheets

December 31, 2012 and 2011
(Expressed in thousands of New Taiwan dollars)

Assets	2012 Amount	2011 Amount	Percentage Increase (Decrease) %
Cash and cash equivalents (note 4(a))	$ 2,482,322	2,586,617	(4)
Due from the Central Bank and call loans to banks (note 4(b))	13,907,049	8,166,189	70
Financial assets at fair value through profit or loss, net (notes 4(c) and 6)	67,641	293,153	(77)
Receivables, net (notes 4(d))	5,530,686	4,115,560	34
Discounts and loans, net (notes 4(f) and 5)	85,237,711	79,661,901	7
Available-for-sale financial assets, net (notes 4(g) and 6)	17,088,847	9,164,686	86
Held-to-maturity financial assets, net (notes 4(h) and 6)	15,600,000	19,850,000	(21)
Equity investments under the equity method, net (notes 4(i) and 5)	62,007	47,494	31
Other financial assets, net (notes 4(j) and 6)	801,835	839,684	(5)
Fixed assets, net (note 4(k))	6,076,773	6,083,828	-
Intangible assets	150,271	123,597	22
Other assets, net (notes 4(l) and (t))	7,367,655	9,043,999	(19)
Total assets	$ 154,372,797	139,976,708	10

Liabilities and Stockholders' Equity	2012 Amount	2011 Amount	Percentage Increase (Decrease) %
Due to the Central Bank and other banks (note 4(m))	$ 1,306,850	4,124,277	(68)
Financial liabilities at fair value through profit or loss (note 4(c))	29	1,310	(98)
Securities sold under repurchase agreements (note 4(n))	8,212,708	7,170,249	15
Payables (notes 4(o) and 5)	2,367,409	2,151,456	10
Deposits and remittances (notes 4(p) and 5)	126,509,252	112,944,159	12
Accrued pension liabilities (note 4(r))	149,910	188,228	(20)
Other financial liabilities (note 4(q))	14,043	616,051	(98)
Other liabilities	459,659	446,594	3
Total liabilities	139,019,860	127,642,324	9
Capital stock (note 4(u))			
Common stock	15,255,976	16,234,639	(6)
Total capital stock	15,255,976	16,234,639	(6)
Capital surplus			
Share premium (note 4(u))	618,220	-	-
Others (note 4(u))	118,511	13,009,038	(99)
Total capital surplus	736,731	13,009,038	(94)
Retained earnings			
Special reserve (note 4(n))	-	8,467	(100)
Accumulated deficit (note 4(u))	(759,269)	(16,942,000)	96
Total accumulated deficit	(759,269)	(16,933,533)	96
Others			
Unrealized gains on financial instruments (note 4(u))	119,499	24,240	393
Total stockholders' equity	15,352,937	12,334,384	24
Commitments and contingencies (note 7)			
Total liabilities and stockholders' equity	$ 154,372,797	139,976,708	10

See accompanying notes to financial statements.

COSMOS BANK, TAIWAN

Income Statements

For the years ended December 31, 2012 and 2011
(Expressed in thousands of New Taiwan dollars, except earnings per share, which are expressed in New Taiwan dollars)

	2012 Amount	2011 Amount	Percentage Increase (Decrease) %
Interest revenue (note 5)	$ 5,607,803	5,253,666	7
Less: interest expense (notes 4(q) and 5)	(1,348,191)	(1,199,806)	(12)
Net interest	4,259,612	4,053,860	5
Net revenues (losses) other than interest			
Service fee income, net (notes 4(s) and 5)	1,105,019	1,067,369	4
Losses on financial assets and liabilities at fair value through profit or loss (note 4(c))	(15,372)	(93,410)	84
Realized gains on the sale of available-for-sale financial assets	53,820	70,372	(24)
Income from equity investments under the equity method (note 4(i))	43,628	27,536	58
Foreign exchange (losses) gains, net	(14,367)	51,487	(128)
Other noninterest gains, net (notes4(e) and 5)	121,258	87,064	39
Loss on the sale of nonperforming loans (note 4(l))	-	(3,368,229)	100
Total net revenues (losses) other than interest	1,293,986	(2,157,811)	160
Total net revenues	5,553,598	1,896,049	193
Reversal of bad debt expenses (note 4(f))	1,977,556	1,560,140	27
Operating expenses (notes 5 and 10(a))			
Personnel	(2,046,864)	(1,913,380)	(7)
Depreciation and amortization	(203,944)	(219,294)	7
Others	(1,564,579)	(1,585,760)	1
Total operating expenses	(3,815,387)	(3,718,434)	(3)
Income (loss) before income tax	3,715,767	(262,245)	1,517
Income tax (expense) benefit (note 4(t))	(822,707)	581	(141,702)
Net Income (loss)	**$ 2,893,060**	**(261,664)**	**1,206**

	2012 Before Tax	2012 After Tax	2011 Before Tax	2011 After Tax
Basic earnings per share (note 4(v))	$ 4.24	3.30	(0.16)	(0.16)
Basic earnings per share - retroactive (note 4(v))			$ (0.30)	(0.30)
Diluted earnings per share (note 4(v))	$ 4.22	3.29		

See accompanying notes to financial statements.

COSMOS BANK, TAIWAN

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2012 and 2011
(in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Retained earnings: Special reserve	Retained earnings: Accumulated deficit	Unrealized valuation gains or losses on financial instruments	Total
Balance at January 1, 2011	$ 16,234,639	12,970,393	-	(16,680,336)	12,244	12,536,940
Reserve for securities trading losses transferred to special reserve	-	-	8,467	-	-	8,467
Employee stock options	-	38,645	-	-	-	38,645
Net loss for the year ended December 31, 2011	-	-	-	(261,664)	-	(261,664)
Unrealized valuation gains on financial instruments	-	-	-	-	11,996	11,996
Balance at December 31, 2011	16,234,639	13,009,038	8,467	(16,942,000)	24,240	12,334,384
Offsetting of accumulated deficit against special reserve	-	-	(8,467)	8,467	-	-
Private placement of common shares – Mandatory Convertible Bonds converted in 2012	12,302,541	(12,300,792)	-	-	-	1,749
Capital reduction to offset accumulated deficit, December 28, 2012	(13,281,204)	-	-	13,281,204	-	-
Employee stock options	-	28,485	-	-	-	28,485
Net Income for the year ended December 31, 2012	-	-	-	2,893,060	-	2,893,060
Unrealized valuation gains on financial instruments	-	-	-	-	95,259	95,259
Balance at December 31, 2012	$ 15,255,976	736,731	-	(759,269)	119,499	15,352,937

See accompanying notes to financial statements.

COSMOS BANK, TAIWAN

Statements of Cash Flows

For the years ended December 31, 2012 and 2011
(in thousands of New Taiwan dollars)

	2012	2011
Cash flows from operating activities:		
Net income (loss)	$ 2,893,060	(261,664)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expenses	103,738	120,292
Amortization expenses	102,621	101,641
Provision for loan losses and net recovery of loans	26,658	747,042
Stock-based compensation expenses	78,788	42,921
Amortization of discount on convertible bank debentures	32,213	85,405
(Gain) loss on sale and disposal of properties, net	(9,503)	9,387
Income from equity investments under the equity method	(43,628)	(27,536)
Cash dividend from equity investments under the equity method	29,115	22,262
Gain on disposal of investment, net	(26,997)	(60,385)
Gain on disposal of assets held-for-sale, net	-	(68,167)
Amortization of loss on the sale of nonperforming loans	-	3,368,229
Net changes in operating assets and liabilities:		
Decrease in financial assets at fair value through profit or loss	225,512	511,038
(Increase) decrease in receivables	(611,925)	221,112
Decrease in deferred income tax assets, net	822,726	718
(Increase) decrease in other financial assets	(41,426)	6,198
Increase in other assets	(27,913)	(25,819)
Decrease in financial liabilities at fair value through profit or loss	(1,281)	(965)
Increase in payables	165,650	537,614
(Decrease) increase in provision for pension cost	(38,318)	2,184
Increase (decrease) in other liabilities	13,613	(25,983)
Net cash provided by operating activities	3,692,703	5,305,524
Cash flows from investing activities:		
Acquisition of available-for-sale financial assets	(55,136,753)	(44,624,629)
Proceeds from the sale of available-for-sale financial assets	47,334,848	36,365,461
Acquisition of held-to-maturity financial assets	(137,050,000)	(19,850,000)
Repayments of held-to-maturity financial assets	141,300,000	-
(Increase) decrease due from the Central Bank and call loans to banks	(5,740,860)	25,693,444
Proceeds from the sale of assets held-for-sale	-	132,280
Acquisition of properties	(54,835)	(46,344)
Proceeds from the sale of properties	9,610	29
Decrease in refundable deposits	818,445	12,772
Acquisition of intangible assets	(76,613)	(41,994)
Increase in discounts and loans	(6,353,742)	(13,202,058)
Rebates from the sale of nonperforming loans	-	107,653
Increase in other assets	(4,751)	(86,426)
Net cash used in investing activities	(14,954,651)	(15,539,812)
Cash flows from financing activities:		
Increase in securities sold under repurchase agreements	1,042,459	7,140,716
Decrease in other financial liabilities	(632,472)	(661,498)
Decrease in due to the Central Bank and other banks	(2,817,427)	(244,448)
Increase in deposits and remittances	13,565,093	4,495,223
Net cash provided by financing activities	11,157,653	10,729,993
Net (decrease) increase in cash and cash equivalents	(104,295)	495,705
Cash and cash equivalents at beginning of year	2,586,617	2,090,912
Cash and cash equivalents at end of year	$ 2,482,322	2,586,617
Supplementary cash flow information		
Interest paid	$ 1,341,441	1,068,801
Income tax paid	$ 35,226	31,346
Supplemental disclosures of non-cash investing and financing activities:		
Fixed assets transferred to other assets	$ 4,508	-
Other assets transferred to fixed assets	$ 17,248	2,447
Foreclosed collateral of rental deposits transferred to fixed assets	$ 26,800	-
Unrealized gain on valuation of financial instruments	$ (95,259)	(11,996)
Reserve for securities trading losses transferred to special reserve	$ -	8,467
Capital reduction to offset accumulated deficit	$ 13,281,204	-

See accompanying notes to financial statements.

COSMOS BANK, TAIWAN

Notes to Financial Statements

December 31, 2012 and 2011
(Expressed in thousands of New Taiwan dollars unless otherwise specified)

1 Organization and Operations

Cosmos Bank, Taiwan (the "Bank") engages in banking activities permitted by the Banking Act of the Republic of China (the Banking Act). The shares of the Bank have been traded on the Taiwan Stock Exchange (TSE) since June 29, 1998.

As of December 31, 2012, the Bank had a main office, an offshore banking unit (OBU), and 48 domestic branches. As of December 31, 2012 and 2011, the Bank had 1,813 and 1,855 employees, respectively.

The business of the Bank's Trust Department includes planning, managing and operating trust business regulated under the Banking Act and Trust Business Regulations of the Republic of China (ROC).

On January 7, 2011, the FSC, under Jin Guan Yin Guo No. 10020000000, requested the Bank to propose practical plans to strengthen the Bank's capital structure and operating capital, improve the financial structure, and increase the adequacy ratio. According to the resolution of extraordinary board meeting on May 16, 2011, and the resolution of the stockholders' meeting on June 28, 2011, the Bank will raise capital by a private placement of common shares and issue a maximum of 200,000 thousand shares, with a face value of 10 dollars per share; and the total face value of the private placement should not exceed $2,000,000. The actual issued private placement shares and total face value would be decided by the actual issue price. As one possible investor is a related party of the Bank, the issue price would be determined and calculated in accordance with the "Directions for Public Companies Conducting Private Placements of Securities". On August 30, 2011, the FSC, under Jin Guan Yin Guo No. 10000293260, requested the Bank to execute the plan for raising capital which was agreed by the shareholders' meeting held on June 28, 2011, to improve the financial structure and to make an assessment of the capital reduction to compensate for the losses in order to avoid section 64 of the Banking Act of the Republic of China. On November 16, 2011, the Bank replied to the FSC regarding the plan for the capital increase and reduction. For the capital increase, the Bank will seek other potential investors, and a current investor approved by the shareholders' meeting will contribute capital after the nonperforming loans of Prince Motors Group are resolved. For the capital reduction, the Bank will assess the proper capital reduction to offset accumulated loss, and improve the financial structure. Pursuant to the laws and regulations, the abovementioned plan for the private placement of common shares should be completed within one year after the resolution of the shareholders' meeting. However, due to the market conditions when the capital was raised, the Bank did not complete the plan in time. Pursuant to the resolution of the stockholders' meeting held on June 22, 2012, the original plan for the private placement of common shares approved by the resolution of the stockholders' meeting on June 28, 2011, was stopped. In addition, according to the resolution of an extraordinary board meeting on May 10, 2012, the Bank will raise capital by a private placement of common shares and issue a maximum of 200,000 thousand shares, with a face value of 10 dollars per share; and the total face value of the private placement should not exceed $2,000,000. The actual issued private placement shares and total value would be decided by the actual issue price.

COSMOS BANK, TAIWAN

Notes to Financial Statements

Since the price for the private placement of common shares is lower than the book value per share, the resolution of the stockholders' meeting rejected the Bank's plan for the private placement of common shares. In order to improve the financial structure, the board meeting held on October 3, 2012, came up with a decision to reduce the capital by $13,281,204 to offset accumulated loss, which constitutes a capital reduction of approximately 46.54%. After the capital reduction, the Bank will issue 100,000 thousand private placement of common shares, with a face value of $10 per share, and the total face value of the private placement of common shares increase should be within $1,000,000. The actual issued private placement shares and total face value would be decided by the actual issued price. The abovementioned capital reduction and the private placement of common shares issuance have been approved during the resolution of extraordinary stockholders' meeting held on November 23, 2012. Effective on December 14, 2012, FSC approved the capital reduction case according to Jin Guan Zheng No. 1010056164, and the Board set the base date for capital reduction as December 28, 2012.

In addition, on December 5, 2012, the Board decided to enforce the conversion of subordinated unsecured Mandatory convertible bonds (MCB) which amounted to $16,170,000 into common shares on December 27, 2012. The conversion price was NT$13.1436263 per share, and the Bonds should be converted into 1,230,254 thousand shares, which increase the share capital by $12,302,541. Therefore, the liabilities and capital surplus of MCB amounting $1,749 and $12,919,012 were written off, causing a share premium of $618,220. The registration for the changes in the abovementioned capital reduction and the conversion of MCB into common shares has been approved by the ministry of Economic Affairs, ROC on January 14, 2013.

2 Summary of Significant Accounting Policies

The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

The Bank's financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Public Banks and accounting principles generally accepted in the Republic of China. In preparing financial statements in conformity with these guidelines and principles, the Bank is required to make certain estimates and assumptions that could affect the amounts of allowance for possible losses, reserve for losses on guarantees, property depreciation, impairment loss on assets, valuation of financial instruments at fair value, pension, employee bonuses, directors' and supervisors' remuneration, share-based payments, allowance for income tax assets, income tax, and accrued litigation loss. Therefore, actual results could differ from these estimates.

Since the operating cycle in the banking industry cannot be reasonably identified, accounts included in the Bank's financial statements are not classified as current or noncurrent. Nevertheless, these accounts are properly categorized according to the nature of each account and sequenced by liquidity. Please refer to note 4(w) for the maturity analysis of assets and liabilities.

COSMOS BANK, TAIWAN

Notes to Financial Statements

The Bank's significant accounting policies are summarized as follows:

(a) Basis of Preparation

The accompanying financial statements include the accounts of the Head Office, the OBU, and all the branches. All interoffice transactions and balances have been eliminated.

(b) Foreign-currency Transactions

The Bank records foreign-currency transactions in the respective currencies in which these are denominated. Every month-end, foreign currency income and expenses are translated into New Taiwan dollars at the month-end exchange rate. On the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the month-end exchange rates, and exchange differences are recognized in the income statement.

Unrealized exchange differences on nonmonetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For nonmonetary financial assets and liabilities classified as financial instruments measured at fair value through profit or loss, unrealized exchange differences are recognized in the income statement. For nonmonetary financial instruments that are classified as available-for-sale, unrealized exchange differences are recorded directly under stockholders' equity until the asset is sold or becomes impaired. Nonmonetary financial instruments that are classified as carried at cost are recognized at the exchange rates on the transaction dates.

(c) Cash and Cash Equivalents

The Bank considers cash on hand, due from banks, and checks for clearing to be cash and cash equivalents.

(d) Financial Assets at Fair Value Through Profit or Loss

The main purpose of the acquisition of financial instruments is to resell or to repurchase within a short period of time. Financial instruments used in derivative transactions that do not qualify for hedge accounting are classified as financial assets or liabilities held for trading. If the fair value of a derivative is a positive number, the derivative is carried as an asset, and if the fair value is a negative number, the derivative is carried as a liability. The Bank adopted trade-date accounting for stocks and beneficiary certificates, and settlement-date accounting for the other financial instruments. Please refer to note 4(w).

COSMOS BANK, TAIWAN

Notes to Financial Statements

(e) Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the financial asset acquisition. When assets are subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized as earnings when the financial asset is de-recognized from the balance sheet.

Cash dividends are recognized on the ex-dividend date except for dividends distributed from pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

If an available-for-sale financial asset is determined to be impaired, a loss is recognized. If the impairment loss on equity securities decreases, this loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity; and for available-for-sale debt instruments, if the decrease can be objectively related to an event occurring after the impairment loss, it should be reversed through profit or loss. Please refer to note 4(w).

(f) Held-to-maturity Financial Assets

Held-to-maturity financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the financial asset acquisition. The net profit and loss of the held-to-maturity investments for the period is reported in the income statement when the financial assets are derecognized, impaired or amortized. If a held-to-maturity financial asset is determined to be impaired, the impairment loss is recognized and reported in the income statement. If the impairment loss decreases, and the decrease can be objectively related to an event occurring after the impairment loss, it should be reversed through profit or loss. Loss reversal is credited to current income and should not be more than the carrying amount had the impairment not been recognized. Please refer to note 4(w).

(g) Financial Assets Carried at Cost

Equity instruments with no quoted market price and whose fair value cannot be reliably measured are stated at cost. If there is objective evidence that financial assets carried at cost are impaired, the carrying amount of the assets is reduced, and impairment loss is recognized. However, the impairment loss may not be reversed subsequently. Please refer to note 4(w).

(h) Debt Instruments with No Active Market

The amortized cost and interest income of debt investments without an active market are determined by using the effective-interest-rate method.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years. Please refer to note 4(w).

(i) Loans and Receivables

Loans and receivables are recognized initially at fair value. Subsequent to initial recognition, loans and receivables are carried at cost less provisions. Loans and receivables are regarded as overdue in the following circumstances:

(i) Receivables of principal or interest may not be repaid in accordance with the contract.

(ii) Receivables of principal or interest are overdue for three or six months.

Under Ministry of Finance (MOF) guidelines, the Bank classifies loans and other credits (including accrued interest) overdue for at least six months as overdue loans. However, the following loans are excluded: (1) The borrowers paid by installment after negotiations; or (2) the borrowers negotiated with the Bank through the R.O.C. Unsecured Consumer Financing Debt Negotiation Mechanism and Consumer Debt Clearance regulations.

Overdue loans (except other credits) are classified as discounts and loans, and other overdue credits (such as guarantees, acceptances, and credit card charges) are classified as other financial assets.

The Bank would write off overdue loans and credits after deducting the estimated recovery amount, and the write-offs are then approved by the board of directors.

In accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", the Bank evaluates credit assets on and off the balance sheet, and evaluates the collectability of credit assets in consideration of the overdue periods and their collateral values. Under the abovementioned regulations, the Bank makes 100%, 50%, 10%, 2% and 0.5% provisions for credit balances deemed uncollectible, highly uncollectible, substandard, special mention, and normal credit assets, respectively, as minimum provisions for possible losses. Meanwhile, the Bank makes provisions for credit card receivables in accordance with the "Regulations Governing Institutions Engaging in Credit Card Business."

COSMOS BANK, TAIWAN

Notes to Financial Statements

Starting from January 1, 2011, in accordance with the third amendment of Statement of Financial Accounting Standards (SFAS) No. 34 "Financial instruments: Recognition and Measurement", the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

In addition, the Bank may adopt a special reserve as a specified provision to enhance the asset quality.

(j) Assets Held for Sale

Assets held for sale are initially measured at the lower of the book value of the assets before they were classified as held for sale or the net fair value. An impairment loss is recognized when the net fair value is lower than the book value. The impairment loss is reversed if an increase in the investment recoverable amount is due to an event that occurred after the impairment loss was recognized, and the accumulated impairment loss is debited to net fair value; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years. Assets classified as held for sale cannot be depreciated, depleted, or amortized.

(k) Securities Purchased/Sold under Resell/Repurchase Agreements

Securities purchased under resell agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions. Interest earned on resell agreements or interest incurred on repurchase agreements is recognized as interest income or interest expense over the life of each agreement.

(l) Non-financial Asset Impairment

If an non-financial asset is impaired, its recoverable amount is compared with its earrying amount. If the recoverable amount is lower than the carrying amount, the carrying amount of the asset should be reduced to its recoverable amount, and the reduction should be recognized as impairment loss. After recognizing impairment of assets, the calculation of depreciation or amortization expense should be based on the adjusted book value minus its residual value and amortized in a reasonable and systematic manner over the remaining estimated useful period.

The accumulated impairment loss on an asset (except goodwill) recognized in prior years should be reversed if the recoverable amount increases. In addition, the asset carrying amount should be increased to its recoverable amount, but this increase should not exceed the carrying amount of the asset that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset in prior years.

(m) Equity Investments under the Equity Method

Investments in which the Bank holds 20% or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

The difference between the investment cost and net equity of an investee is tested for impairment at each balance sheet date. If there is evidence indicating that an impairment loss has occurred, then the carrying amount of the investment is reduced to reflect its net realizable value. For long-term equity investment in which the Bank has significant influence and a non-controlling interest, the Bank would evaluate the asset impairment of the investment individually based on its carrying amount.

For equity-method investments, stock dividends received are recognized only as increases in the number of shares held, and not as income. Cost of equity investments sold is determined by the weighted-average method.

(n) Fixed Assets, Assets Rented and Idle Assets

Fixed assets are carried at cost less accumulated depreciation. Major betterments, additions and renewals are capitalized, while repairs and maintenance are expensed as incurred.

Depreciation is computed using the straight-line method over service lives initially estimated as follows (plus one year to represent estimated salvage value):

(i) buildings: 20 to 60 years;

(ii) machinery and equipment: 2 to 5 years;

(iii) transportation and communications equipment: 2 to 15 years;

(iv) miscellaneous equipment: 2 to 10 years.

Properties that have reached their estimated useful lives but are still being used are depreciated over their newly estimated service lives.

COSMOS BANK, TAIWAN

Notes to Financial Statements

Upon sale or other disposal of properties, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to net noninterest income. Fixed assets which were leased to others are stated as assets rented under other assets; rental revenues are recognized as net revenues other than interest in the income statements. Assets rented are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the service lives initially estimated and accounted for as a reduction of net revenues other than interest in the income statements.

For fixed assets lying unused or becoming idle, their cost, accumulated depreciation, and accumulated impairment would be transferred into the idle assets account.

(o) Intangible Assets

Computer software is initially measured at cost and amortized over 5 years.

(p) Foreclosed Collateral

Foreclosed collateral taken over is booked at the acquisition cost stated by the court. Foreclosed collateral is recorded at the lower of cost or net realizable value on the balance sheet date. If collateral assumed is not disposed of within the statutory period, relevant regulations require that the Bank should either apply for an extension of the disposal period or increase its provision for possible losses.

(q) Deferred Loss on the Sale of Nonperforming Loans

In compliance with the Law Governing Mergers of Financial Institutions, loss on the sale of nonperforming loans is amortized using the straight-line method over five years.

(r) Bank Debentures

For convertible bonds issued, the Bank first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivatives) that does not have an associated equity component, then determines the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component from the fair value of the convertible bonds as a whole. The liability component (excluding the embedded non-equity derivatives) is measured at amortized cost using the effective interest method, while the embedded non-equity derivatives are measured at fair value. When the bank debentures are converted, the Bank writes off the book value of the liability and equity components and calculates the converted common shares by dividing the face value of the converted bonds by the conversion price.

Pursuant to a newly released SFAS, transaction costs of bonds issued on or after January 1, 2006, are allocated in proportion to the liability and equity components of the bonds. Transaction costs allocated to the equity component are accounted for as a deduction from equity, net of any income tax benefit.

(s) Reserve for operations and liabilities

Previously, in accordance with the "Regulations Governing Securities Firms," the Bank should retain 10% of its gain on trading securities monthly on its own account, net of any loss, as reserve for securities trading losses. According to the "Regulations Governing Futures Commission Merchants," the Bank should also retain 10% of its realized gain on trading futures every month on its own account as reserve for futures trading losses. Effective January 11, 2011, however, the FSC revoked the above regulations under FSC Jin Guan Zheng Quan No. 0990073857 and Jin Guan Zheng Qi No. 1000000289. As of December 31, 2010, the amount of trading losses reserve for which the securities firms and the futures commission merchants made provisions should be reclassified as special reserves under retained earnings. The special reserves can only be used to offset a deficit or capitalized when they reach 50% of the total paid-in capital.

(t) Pension Costs

The Bank has two types of pension plans: defined benefit and defined contribution.

Under the defined benefit pension plan, pension costs are recorded on the basis of actuarial calculations. Unrecognized net transition obligation is amortized over 15 years, and prior service cost and actuarial gains or losses are amortized over the employees' remaining service years using the straight-line method. Under the defined contribution pension plan, the Bank recognizes its required monthly contributions to employees' individual pension accounts as current expense during the employees' service periods.

(u) Income Tax

Provision for income tax is based on intra-period and inter-period tax allocation. The tax effects of deductible temporary differences, unused tax credits, operating loss carryforwards, and debit of stockholders' equity adjustments are recognized as deferred income tax assets, and those of taxable temporary differences and credits to stockholders' equity adjustments are recognized as deferred income tax liabilities. A valuation allowance is provided for deferred income tax assets that are not certain to be realized.

Tax credits for personnel training are recognized in the current period.

Income taxes (10%) on undistributed earnings generated annually since 1998 are recorded as expenses in the year when the stockholders resolve to retain the earnings.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(v) Share-based Payments

The value of compensatory stock options and stock appreciation rights is based on the expected number of shares and the fair value on the grant date, and expense is recognized over the vesting period using the straight-line method. At the same time, adjustment is made to capital surplus – employee stock option for share-based payment, while adjustment is made to liabilities for non-share-based payment.

If the grant date is later than the date that an employee who was given the share-based payment awards started working, the fair value of the equity awards on the grant date is estimated, and is recorded as a personnel expense for the period from the start-working date to the grant date. After the grant date is confirmed, the amount recognized as an expense is adjusted to reflect the fair value of the equity awards on the grant date.

The old equity instruments replaced by new equity instruments should be treated as a modification of the terms under share-based payments, which may have an effect on the expense that will be recorded. If the fair value of the new instruments is less than the fair value of the old instruments, the original fair value of the equity instruments granted should be treated as expense as if the modification never occurred. If the fair value of the new instruments is more than the fair value of the old instruments, the incremental amount is recognized over the remaining vesting period in a manner similar to the original amount.

(w) Employee Bonuses and Directors' Remuneration

Employee bonuses and directors' remuneration are accrued in accordance with Interpretation 96 Ji-Mi No. 052 issued by the Accounting Research and Development Foundation in Taiwan and recorded under personnel costs. If the subsequent resolution by the shareholders' meeting differs from the amount disclosed in the financial statements, it is recognized as a change in estimates and recorded under current-period profit/loss.

(x) Recognition of Revenue

Interest revenue on loans is recorded on an accrual basis. Under MOF regulations, no interest revenue is recognized on loans and other credits extended by the Bank that are classified as overdue loans. The interest revenue on those loans is recognized upon collection.

The unpaid interest on rescheduled loans should be recorded as deferred revenue (included in other liabilities), and the paid interest is recognized as interest revenue.

Service fees are recorded when a major part of the earnings process is completed and revenue is realized. The service fees which are caused by loans or receivables shall be recognized as interest revenue when they meet a suggested policy announced by the Bankers Association of the Republic of China. This policy requires an individual loan that meets the materiality criteria to have its effective interest rate be consistent with its interest revenue. Overall, the service fees shall be adjusted from the original agreed interest rate to the effective interest rate.

(y) Contingencies

A loss is recognized when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. A footnote disclosure is made of a situation that might result in a possible loss but for which the amount of loss cannot be reasonably estimated.

(z) Operating Segments

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

(aa) Earnings per Share

Basic earnings per share are calculated using the net income after taxes minus dividends paid on preferred shares divided by the weighted-average number of common shares outstanding during the period. If there are newly issued shares through retained earnings or capital surplus, or issued through a resolution of the 2008 shareholders' meeting or before, the EPS should be recalculated. If the measurement date is before the issuance of financial statements, then they should also be recalculated.

The employee stock options, Subordinated Unsecured Mandatory Convertible Bonds (MCB), and employee bonuses settled using shares that have yet to be approved by the shareholders' meeting are deemed to be potential common stock. If the potential common stock possesses diluting effects, then diluted EPS must be disclosed in addition to basic EPS. If diluting effects do not exist, then only basic EPS are required to be disclosed.

3 Accounting Changes

(a) Effective January 1, 2011, the Bank adopted the third amendment of SFAS No. 34 "Financial Instruments: Recognition and Measurement." In accordance with SFAS No. 34, loans and receivables should apply the guidelines on recognition, subsequent evaluation, and impairment in SFAS No. 34. There was no significant impact on the net loss and EPS for the year ended December 31, 2011, from the adoption of the third amendment of SFAS No. 34.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(b) Effective January 1, 2011, the Bank adopted SFAS No. 41 “Operating Segments”, which supersedes SFAS No. 20 “Segment Reporting”. In accordance with SFAS No. 41, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Bank determines and presents operating segments based on the information that is internally provided to the chief operating decision maker. For the year ended December 31, 2011, such changes in accounting principle did not have any impact on the Bank's financial statements.

4 Summary of Major Accounts

(a) Cash and cash equivalents

	December 31, 2012	December 31, 2011
Cash on hand	$ 1,064,244	1,019,159
Due from banks	489,878	742,895
Checks for clearing	928,200	824,563
	$ 2,482,322	2,586,617

(b) Due from the Central Bank and call loans to banks

	December 31, 2012	December 31, 2011
Call loans to banks	$ 3,478,411	3,746,266
Deposit in the Central Bank	6,050,000	900,000
Reserves for deposits in the Central Bank - a/c B	3,157,033	3,055,799
Reserves for deposits in the Central Bank - a/c A	918,586	282,324
Deposits	303,019	181,800
	$ 13,907,049	8,166,189

As required by law, the reserves for deposits in the Central Bank are calculated by applying the prescribed rates to the average monthly balances of various types of deposit accounts. The use of reserves for deposits - a/c B is restricted by the Central Bank.

(c) Financial instruments at fair value through profit or loss (FVTPL)

		December 31, 2012	December 31, 2011
Held-for-trading financial assets			
Listed companies' stocks	$	31,109	2,401
Beneficiary certificates		18,730	40,819
Government bonds		17,696	249,929
Forward exchange contracts		-	4
Foreign-currency swap contracts		106	-
	$	67,641	293,153
Held-for-trading financial liabilities			
Forward exchange contracts	$	19	319
Foreign-currency swap contracts		10	991
	$	29	1,310

The amount of FVTPL pledged is disclosed in Note 6(a).

The Bank engages in derivative transactions mainly to hedge its exchange rate and interest rate exposures. The Bank's financial hedging policy is to reduce or minimize its market price or cash flow exposures.

Outstanding derivative contracts as of December 31, 2012 and 2011, were as follows:

		December 31, 2012	December 31, 2011
Foreign-currency swap contracts	$	18,655	134,823
Forward exchange contracts		8,351	17,709

The net gains (losses) on financial assets held for trading for the years ended December 31, 2012 and 2011, were $426 and $(30,422), respectively. The net losses on financial liabilities held for trading for the years ended December 31, 2012 and 2011, were $15,798 and $62,988, respectively.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(d) Receivables, net

		December 31, 2012	December 31, 2011
Credit cards	$	2,648,657	2,864,748
Accounts receivable - no recourse		1,918	2,729
Accrued interest		402,747	363,938
Acceptances		34,420	52,968
Tax refund receivable		89,343	94,215
Accrued income		82,161	75,071
Rental deposits		2,179,846	1,406,546
PEM receivable		821,332	803,108
Others		354,389	401,197
		6,614,813	6,064,520
Less: allowance for possible losses		(1,084,127)	(1,948,960)
	$	5,530,686	4,115,560

As of December 31, 2012 and 2011, the rental deposits receivable amounting to $2,179,846 and $1,406,546, respectively, resulted from the relocation to Bank-owned property, of which, deposits from Prince Motors and Cosmos Construction Management Corporation amounted to $1,723,700 and $910,700 respectively. As the Dun Nan building of Prince Motors' collateral is sold through auction by the court, the Bank will receive $1,950,000 based on the court allocation, which is sufficient to pay off the rental deposits the Prince Motors owed. On September 30, 2012, provision for bad debt amounting $803,700 was reversed. For the years ended December 31, 2012 and 2011, the provisions for possible losses on receivables were $107,000 and $910,700 respectively. However, on the year ending December 2012, Prince Motors disagreed with the amounts allocated by the court and a third party regarded the property rights of Dun Nan building as fraudulently infringing upon the rights of the creditors. Based on the judgments of the Bank lawyers, such disagreements have no impact on the amounts distributed to the Bank. Please refer to note 7(e). In addition, for the year ended December 31, 2012, the Bank received a real estate collateral to offset the rental deposits receivable and classified it as Bank-owned property. The rental deposits receivable amounting to $40,000 and allowance for possible losses amounting to $13,200 were transferred to the cost of fixed assets and accumulated impairment, respectively. Please refer to note 4(k).

From May 2007 to February 2008, the Bank sold structured notes, which were issued by GVEC Resource Inc. (GVEC), through a specific trust fund amounting to USD 48,920 thousand. PEM Group, which GVEC was subordinated to, was found to have committed fraud by the U.S. Securities and Exchange Commission (SEC). In view of its social responsibility, the Bank's board of directors decided to buy back the structured notes and ask for compensation from PEM Group before March 31, 2010.

PEM Group invested in life insurance policy products, etc. In order to recover credit rights effectively and to protect stockholders' equity, the Bank's board of directors adopted a resolution on Dec. 21, 2010, to take over all the insurance policies and hold these policies in the form of trust. The Bank completed the transfer of the life insurance policies from PEM Group on March 7, 2011. The Bank measured the policies' cost based on an actuarial report minus administration fees, then recognized the cost amounting to $218,386 (USD 7,423 thousand). At the same time, the Bank wrote off the initial cost and provision for life insurance policies amounting to $433,061 (USD 14,721 thousand). The Bank expects to dispose of the life insurance policies in the next four years.

As of December 31, 2012, the PEM receivable amounting to $821,332 (USD28,189 thousand) was measured as the abovementioned PEM receivable plus premiums paid thereon, less any recovery amount. After assessing the possibility of recovery based on the latest information provided by the receiver of PEM Group and the trust entity, the balance of the PEM receivable and its allowance for possible losses were as follows:

(in thousands of USD/NTD)

	December 31, 2012		December 31, 2011	
	USD	NTD	USD	NTD
Life insurance policies	$ 11,009	320,761	9,221	279,309
Non-life insurance policies	17,180	500,571	17,293	523,799
	28,189	821,332	26,514	803,108
Less: allowance for possible losses	(16,750)	(488,015)	(16,558)	(501,547)
	$ 11,439	333,317	9,956	301,561

As of December 31, 2012 and 2011, the assessment of allowance for possible losses on receivables was as follows:

Items		Receivables (Note)		Allowance for possible losses	
		December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
With objective evidence of impairment	Individual assessment	1,376,313	2,221,275	968,677	1,820,908
	Collective assessment	66,866	86,769	37,663	64,975
Without objective evidence of impairment	Collective assessment	4,783,736	3,368,167	77,787	63,077
Total		6,226,915	5,676,211	1,084,127	1,948,960

Note 1: The amount of receivables excludes the amount of allowance for credit losses and adjustments for discount (premium).

COSMOS BANK, TAIWAN

Notes to Financial Statements

Note 2: For the years ended December 31, 2012 and 2011, tax refund receivable and other receivable totaling $387,898 and $388,309, respectively, were excluded under SFAS No. 34.

The changes in allowance for possible losses on receivables for the years ended December 31, 2012 and 2011, were as follows:

	For the years ended December 31, 2012	December 31, 2011
Balance, beginning of year	$ 1,948,960	2,325,315
(Reversal) provision	(830,001)	53,710
Effects of exchange rate changes	(19,108)	9,885
Write-offs	(2,524)	(439,950)
Other adjustment	(13,200)	-
Ending balance	$ 1,084,127	1,948,960

A summary of the provision for receivables, discounts, and loans for the years ended December 31, 2012 and 2011, is disclosed in note 4(f).

(e) Assets held for sale, net

For 2011, part of the assets held for sale had carrying amounts of $64,113, and the Bank recognized the disposal gains amounting to $68,167, as net revenues other than interest in the income statements.

(f) Discounts and loans, net

	December 31, 2012	December 31, 2011
Bills negotiated	$ 2,185	5,534
Loans		
Short-term	31,370,397	32,761,315
Medium-term	21,283,402	15,013,756
Long-term	33,340,956	28,606,302
Overdue loans	467,117	6,130,394
	86,464,057	82,517,301
Less: allowance for possible losses	(1,226,346)	(2,855,400)
	$ 85,237,711	79,661,901

As of December 31, 2012 and 2011, the balances of loans for which accrual of interest revenues was discontinued were $451,812 and $6,101,283, respectively. The unrecognized interest revenues on these loans were $163,295 and $99,292 for the years ended December 31, 2012 and 2011, respectively.

For the years ended December 31, 2012 and 2011, the Bank wrote off certain loans after carrying out the required legal procedures.

As of December 31, 2012 and 2011, the assessment of allowance for possible losses on loans was as follows:

Items		Loans		Allowance for possible losses	
		December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
With objective evidence of impairment	Individual assessment	485,967	6,242,978	-	1,460,930
	Collective assessment	1,280,786	1,098,734	652,089	697,703
Without objective evidence of impairment	Collective assessment	84,697,304	75,175,589	574,257	696,767
Total		86,464,057	82,517,301	1,226,346	2,855,400

Note: The amount of discounts and loans excludes the amount of allowance for credit losses and adjustments for discount (premium).

The changes in allowance for possible losses on discounts and loans for the years ended December 31, 2012 and 2011, were as follows:

	For the years ended December 31, 2012	For the years ended December 31, 2011
Balance, beginning of year	$ 2,855,400	3,117,489
Reversal of bad debt expenses	(1,071,530)	(1,528,086)
Recovery of written-off credits	1,849,462	2,151,457
Write-offs	(2,360,601)	(885,460)
Reduction and exemption	(46,281)	-
Effects of exchange rate changes	(104)	-
Ending balance	$ 1,226,346	2,855,400

COSMOS BANK, TAIWAN

Notes to Financial Statements

In order to protect its creditor's right, the Bank has been actively trying to manage Prince Motors' overdue debts. As a result, for the year ended of December 31, 2012, the Court has forcibly put Prince Motors' Tucheng Factories on auction and has distributed $3,923,560 to the Bank. After paying out the legal fees, the Bank has received $3,885,459 and will, after reversing the overdue credit, allocate the rest of the reversed provisions to bad debt. As of December 31, 2012, the total wrote off liabilities amounts to $1,478,338. Please refer to note 7(e).

A summary of the (reversal of provision) provision for receivables, discounts, and loans for the years ended December 31, 2012 and 2011, is as follows:

	For the years ended December 31, 2012	December 31, 2011
Reversal of provision for possible losses on discounts and loans	$ (1,071,530)	(1,528,086)
(Reversal of provision) provision for possible losses on receivables	(830,001)	53,710
Reversal of provision for overdue credits	(75,477)	(97,954)
(Reversal of provision) provision for possible losses on guarantee liabilities	(548)	12,190
	$ (1,977,556)	(1,560,140)

Prince Motors' collateral (Dun Nan building) has been sold on the court auction in September, 2012. The court has allocated $1,950,000 to the Bank, which is sufficient to pay off the rental deposits Prince Motors owed amounting to $1,616,700. In September, 2012, the Bank reversed the provision for possible losses on receivables amounting to $803,700. Please refer to notes 4(d) and 7(e).

(g) Available-for-sale financial assets, net

	December 31, 2012	December 31, 2011
Listed companies' stock	$ 290,235	206,780
Visa Inc. stock	3,630	2,606
Government bonds	8,703,210	5,936,024
Corporate bonds	3,726,376	2,335,894
Financial debentures	743,800	293,644
Commercial papers	3,271,565	389,738
Certificates of deposit of bank	350,031	-
	$ 17,088,847	9,164,686

For the government bonds that are used as pledged assets, please refer to notes 6(a), (b) and (d).

(h) Held-to-maturity financial assets, net

	December 31, 2012	December 31, 2011
Negotiable certificates of deposit of Central Bank	$ 15,600,000	19,850,000

Please refer to note 6(d) for details of the abovementioned negotiable certificates of deposit of the Central Bank pledged as collateral.

(i) Equity investments under the equity method, net

	December 31, 2012		December 31, 2011	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Cosmos Insurance Brokers Co., Ltd.	$ 62,007	100.00	47,494	100.00

For the years ended December 31, 2012 and 2011, net income on this investment was $43,628 and $27,536, respectively. Net income was calculated and recognized in accordance with the audited financial statements of the investee companies for the years ended December 31, 2012 and 2011.

The total assets and capital of the Bank's subsidiary Cosmos Insurance Brokers Co., Ltd. were not significant to the Bank, and the Bank did not prepare consolidated financial statements for the years ended December 31, 2012 and 2011.

(j) Other financial assets, net

	December 31, 2012	December 31, 2011
Financial assets carried at cost, net	$ 763,237	769,582
Others	38,598	70,102
	$ 801,835	839,684

COSMOS BANK, TAIWAN

Notes to Financial Statements

(i) Financial assets carried at cost were as follows:

	December 31, 2012 Carrying Value	December 31, 2012 % of Ownership	December 31, 2011 Carrying Value	December 31, 2011 % of Ownership
Unlisted common stock with no quoted market price:				
CDIB & Partners Investment Holding Ltd.	$ 500,000	4.95	500,000	4.95
Taiwan Asset Management Corporation	100,000	0.57	100,000	0.57
Euroc II Venture Capital Corporation	33,263	7.50	33,263	7.50
Financial Information Service Co., Ltd.	49,120	1.23	49,120	1.23
Reliance Securities Investment Trust Corporation, Ltd. (RSIT)	46,752	12.31	46,752	12.31
Euroc III Venture Capital Corp.	18,357	5.00	18,357	5.00
Taiwan International Future Co. Ltd.	10,250	0.51	10,250	0.51
Taiwan Depository & Clearing Corp.	-	-	6,345	0.08
Yang-Kuan Asset Management Corporation	3,445	5.74	3,445	5.74
Lien-An Service Co.	1,250	5.00	1,250	5.00
Taipei Forex Inc.	800	0.40	800	0.40
Cosmos Construction Management Corporation (CCMC)	-	9.39	-	9.39
	$ 763,237		769,582	

In 2012, the Bank disposed the stocks of Taiwan Depository & Clearing Corp, where the carrying amount of the Company shares was $6,345. The Bank recognized the gain on disposal amounting to $7,253 as other non-interest gain.

(ii) Other financial assets were as follows:

	December 31, 2012	December 31, 2011
Pledged certificates of deposit	$ 29,418	30,377
Margin on futures and options	9,180	39,695
Others	-	30
	$ 38,598	70,102

Please refer to note 6(c) for details of pledged certificates of deposit.

(k) Fixed assets, net

	December 31, 2012			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land	$ 3,988,982	-	4,257	3,984,725
Buildings	2,617,080	623,853	8,943	1,984,284
Machinery and equipment	1,257,691	1,198,437	-	59,254
Transportation and communications equipment	175,721	157,451	-	18,270
Miscellaneous equipment	299,532	285,066	-	14,466
Leased assets	15,216	562	-	14,654
Prepayments for equipment	1,120	-	-	1,120
Total	$ 8,355,342	2,265,369	13,200	6,076,773

	December 31, 2011			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land	$ 3,972,740	-	-	3,972,740
Buildings	2,578,833	566,628	-	2,012,205
Machinery and equipment	1,512,338	1,438,199	-	74,139
Transportation and communications equipment	230,214	221,512	-	8,702
Miscellaneous equipment	308,962	294,075	-	14,887
Construction in progress and prepayments for equipment	1,155	-	-	1,155
Total	$ 8,604,242	2,520,414	-	6,083,828

The Bank defines each product line as a cash-generating unit (CGU). When it tests the assets for impairment, including fixed assets, deferred charges, and intangible assets, it considers the internally practical management and the product lines or business lines as the CGUs. The recoverable amount of a CGU is its value in use, and the key assumptions on the economic conditions that will occur over the remaining useful life of the CGU, such as estimated future cash flows, are based on each CGU's operations or objective data on its business cycle. Under the assumption of sustainable operations, the Bank estimated each CGU's net cash flow for future years.

In addition, for the year ended December 31, 2012, the Bank received real estate collateral to offset the rental deposits receivable and classified it as Bank-owned property. The rental deposits receivable amounting to $40,000 and allowance for possible losses amounting to $13,200 were transferred to the cost of fixed assets and accumulated impairment, respectively, with a carrying value of $26,800, in accordance with the assessment of the collateral's fair value.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(l) Other assets, net

		December 31, 2012	December 31, 2011
Prepayments	$	76,407	94,851
Prepaid pension costs		64,459	42,597
Deferred charges		96,871	118,063
Deferred income tax assets, net (note 4(t))		6,519,132	7,341,858
Refundable deposits		106,377	924,822
Assets rented		454,214	468,703
Less: accumulated depreciation – assets rented		(32,771)	(32,105)
Others		82,966	85,210
	$	7,367,655	9,043,999

(i) Loss on the sale of nonperforming loans

In 2006, the Bank signed contracts with Yang-Kuan Asset Management Co., Ltd. (YKAM), ORIX Taiwan Corporation (ORIX), and CMC to transfer and sell to these three companies nonperforming loans of $103,239, $2,454,035, and $19,465,842, respectively. For these transactions, the Bank should receive a payment of $1,140,590 in cash and some YKAM stock at face value. These sales resulted in a loss of $20,882,526. CMC agreed that if there are proceeds from the sale of nonperforming loans within five years from the contract date, 50% of these proceeds, net of the yield amount, related tax and litigation expenses, and necessary administrative expenditures, should be returned to the Bank. For year ended December 31, 2011, the Bank received proceeds of $107,653 (treated as a reduction of loss on the sale of nonperforming loans).

Under the Law Governing Mergers of Financial Institutions, the Bank deferred all of the losses on the sale of the above nonperforming loans and amortized them by the straight-line method over five years. The unamortized amount of $3,368,229 as of December 31, 2011, was presented under loss on the sale of nonperforming loans.

(ii) Foreclosed collateral, net

		December 31, 2012	December 31, 2011
Foreclosed collateral	$	85,442	87,311
Less: Accumulated impairment		(85,442)	(87,311)
	$	-	-

(iii) Deferred income tax assets, net: Please refer to note 4(t).

(iv) The Bank paid Prince Motors a refundable deposit amounting to $813,000 for its tenancy. In the fourth quarter of 2012, the Bank terminated the tenancy with Prince Motors and the refundable deposit was reclassified as rental deposits receivables.

(v) Assets rented, net:

		December 31, 2012	December 31, 2011
Assets rented – land	$	328,792	332,135
Assets rented – buildings		125,422	136,568
		454,214	468,703
Less: Accumulated depreciation		(32,771)	(32,105)
	$	421,443	436,598

(m) Due to the Central Bank and other banks

		December 31, 2012	December 31, 2011
Call loans to banks	$	300,000	-
Due to other banks		300,000	-
Due to Chunghwa Post Co., Ltd.		706,850	4,124,277
	$	1,306,850	4,124,277

(n) Securities sold under repurchase agreements

As of December 31, 2012 and 2011, securities sold for $8,212,708 and $7,170,249, respectively, under repurchase agreements would be repurchased for $8,221,806 and $7,176,702, respectively, by April 10, 2013, and March 26, 2012.

As of December 31, 2012 and 2011, the following available-for-sale financial assets had been sold under repurchase agreements.

		December 31, 2012	December 31, 2011
Available for-sale financial assets	$	8,240,000	7,495,300

COSMOS BANK, TAIWAN

Notes to Financial Statements

(o) Payables

	December 31, 2012	December 31, 2011
Accrued expenses	$ 577,940	486,241
Accrued interest	224,752	252,724
Payable on funds purchased	24,144	7,914
Checks for clearing	928,200	824,563
Collections payable	43,447	38,090
Acceptance	34,420	53,271
Others	534,506	488,653
	$ 2,367,409	2,151,456

(p) Deposits and remittances

	December 31, 2012	December 31, 2011
Deposits:		
Checking	$ 1,093,407	997,002
Demand	12,302,364	11,887,250
Time	24,951,775	32,218,625
Savings	87,589,747	67,300,153
Negotiable certificates of deposit	561,900	532,800
Remittances	10,059	8,329
	$ 126,509,252	112,944,159

(q) Bank debentures and other financial liabilities

On December 28, 2007, the Bank privately placed Subordinated Unsecured Mandatory Convertible Bonds (the Bonds). GE Capital Asia Investments Holdings B.V. and S.A.C. PEI Taiwan Holdings B.V. subscribed for these Bonds, and their holdings amounted to $1,650,000 and $18,150,000, respectively. The issuance period is five years, and the interest rate is from 4.00% to 6.00%. The coupon interest for year 1 should be fully paid on the issue date, and for year 2 should be fully paid on the first day of year 2. The coupon interest rate of the first two years is 6%, and effective interest rate is about 5.78%. For years 3 to 5, the coupon interest (4%) is payable quarterly from the end of the three months after the first day of year 3. The conversion price upon issuance is NT$2 (dollars) per share, which can be modified anytime using a certain formula. The Bonds can be converted without restrictions between the 31st day after the issuance date and the maturity date.

Advance repayment, redemption, purchase, cancellation or amendment of all or part of the Bonds is prohibited under the contract unless the Bank receives a written consent from the bondholders.

The Bank recognized (a) the conversion option as capital surplus – others, which amounted to \$15,819,198 (\$15,944,124 less \$124,926 in transaction cost after income tax) and (b) the accrued interest on the Bonds, which amounted to \$3,826,385 (\$3,855,876 less \$29,491 in transaction cost after income tax), classified as other financial liabilities. For the years ended December 31, 2012 and 2011, the Bank recognized \$32,213 and \$85,405 interest expense, respectively. As of December 31, 2012 and 2011, the balance of accrued interest on the Bonds was \$0 and \$614,564, respectively.

On October 6, 2009, S.A.C. PEI Taiwan Holdings B.V. converted the Bonds in the amount of \$3,630,000 into common stock before the maturity date. The conversion price upon issuance was NT\$6.004902 (dollars) per share, and the Bonds should be converted into 604,506 thousand common shares. On December 5, 2012, the Board decided to enforce the conversion of convertible bonds which amounted to \$16,170,000 into common shares on December 27, 2012. The conversion price was NT\$13.1436263 (dollars) per share, and the Bonds should be converted into 1,230,254 shares, which increase the share capital by \$12,302,541. Therefore, the liabilities and capital surplus of MCB amounting to \$1,749 and \$12,919,012 were written off, causing a share premium of \$618,220. The face value of the converted MCB of S.A.C. PEI Taiwan Holdings B.V. and GE Capital Asia Investments Holdings B.V. amounting to \$14,520,000 and \$1,650,000 were converted into 1,104,718 and 125,536 common shares respectively. Please refer to note 4(u).

(r) Pension plan

The Labor Pension Act (the "Act"), which took effect on July 1, 2005, provides for a new defined contribution pension plan. Bank employees subject to the earlier-promulgated Labor Standards Act were allowed to choose between the pension mechanism under the Labor Standards Act or the mechanism under the Act. For those employees who chose to be subject to the pension mechanism under the Act, their service years before the enforcement of the Act will be retained. However, those hired on or after July 1, 2005, automatically become subject to the Act.

Based on the Act, the rate of the Bank's required monthly contributions to the employees' individual pension accounts is 6% of monthly wages and salaries.

For the Bank's employees who chose to continue to be subject to the Labor Standards Act, benefit payments are based on length of service and average monthly salary or wages upon retirement. The Bank has two funds under its defined benefit plan: one for management and the other for nonmanagement employees ("employees"). The Bank makes monthly contributions to the employees' pension fund, which is managed by the employees' fund committee and deposited in the committee's name in Bank of Taiwan. The pension fund for management is administered by the employees' pension fund administrative committee and deposited under the committee's name to an account in the Bank.

COSMOS BANK, TAIWAN

Notes to Financial Statements

On December 6, 2007, the Bank signed with the Bank's labor union an Employee Benefit Proposal – Early Retirement Plan (ERP), under which the Bank would carry out the pension plan in stages. The board of directors approved the ERP on December 11, 2007, and January 15, 2009. For the years ended December 31, 2012 and 2011, pension expense recognized as a result of the ERP amounted to $0 and $62,153, respectively. As of December 31, 2012 and 2011, ERP pension liability amounted to $149,910 and $188,228, respectively.

Pension expenses were $71,278 and $128,908 for the years ended December 31, 2012 and 2011, respectively (among which $78,194 and $73,130, respectively, belonged to pension expenses for the defined contribution plan).

The following table sets forth the benefit obligation and accrued pension balance as of December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Benefit obligation:		
Non-vested benefit obligations	$ (315,076)	(292,972)
Vested benefit obligation	(53,875)	(56,272)
Accumulated benefit obligation	(368,951)	(349,244)
Additional benefits based on future salaries	(173,729)	(172,338)
Projected benefit obligation	(542,680)	(521,582)
Fair value of plan assets	801,828	772,174
Funded status	259,148	250,592
Unrecognized net gain	(194,689)	(207,995)
Prepaid pension (classified on other assets)	$ 64,459	42,597

As of December 31, 2012 and 2011, the vested benefit for employees of the Bank that qualified for retirement amounted to $59,878 and $63,218, respectively.

The net pension costs in 2012 and 2011 consisted of the following items:

	For the years ended December 31, 2012	For the years ended December 31, 2011
Service cost	$ 4,487	4,579
Interest cost	10,051	10,269
Expected return on plan assets	(15,227)	(14,886)
Amortization	(6,227)	(5,734)
Amortized prior unamortized service cost	-	(603)
Add: ERP pension expenses	-	62,153
Net periodic pension (benefit) cost	$ (6,916)	55,778

Actuarial assumptions were as follows:

	December 31, 2012	December 31, 2011
Discount rate	1.88%	2.00%
Expected rate of increase in salaries	3.00%	3.00%
Expected rate of return on plan assets	1.88%	2.00%

Changes in the management's and employees' pension funds were as follows:

	For the years ended December 31, 2012	December 31, 2011
Management's pension fund		
Beginning balance	$ 517,609	514,111
Contribution	4,371	4,240
Interest income	4,310	3,375
Benefits paid	-	(4,117)
Ending balance	$ 526,290	517,609
Employees' pension fund		
Beginning balance	$ 393,130	377,174
Contribution	10,574	11,363
Interest income	3,858	4,593
Ending balance	$ 407,562	393,130

(s) Service fee income, net

	For the years ended December 31, 2012	December 31, 2011
Service fee income	$ 1,271,557	1,257,545
Service fee expense	(166,538)	(190,176)
	$ 1,105,019	1,067,369

(t) Income tax

(i) The statutory tax rate is 17%, and the Bank calculated the basic tax amount in accordance with the Income Basic Tax Act.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(ii) As of December 31, 2012 and 2011, income tax expense (benefit) was calculated as follows:

	For the years ended December 31, 2012	December 31, 2011
Income tax benefit – current before tax credits	$ (19)	(1,299)
Net changes in deferred income tax expense (benefit):		
Decrease (increase) on loss carryforwards	406,480	(298,400)
Amortization of goodwill	1,636	6,092
Decrease in allowance for possible losses on loans and receivables	104,167	127,456
Loss on the transfer of foreclosed collateral to fixed assets	240	240
Decrease (increase) in provision for various losses	602	(712)
Reversal of impairment loss	6,865	-
Pension costs	10,231	3,365
Unrealized foreign exchange (loss) gain	(10,849)	16,641
Decrease in investment tax credits	3,466	5,986
Unrealized valuation (loss) gain on financial instruments	(112)	2,050
Valuation allowance for deferred income tax assets	300,000	138,000
Deferred income tax expense	822,726	718
Income tax expense (benefit)	$ 822,707	(581)

(iii) The income tax computed at the statutory tax rate was reconciled with the income tax expense for the year ended December 31, 2012 and 2011, as follows:

	For the years ended December 31, 2012	December 31, 2011
Income tax expense (benefit) before income tax at statutory rate (17%)	$ 631,680	(44,582)
Tax-exempt gain on domestic cash dividends	(12,585)	(11,768)
Interest expense on bank debenture	(102,978)	(95,437)
Tax-exempt gains from OBU	(10,592)	(1,305)
Tax-exempt (gains) on sales of land	-	(13,655)
Prior year's income tax adjustment	26,097	3,776
Investment tax credits	3,461	5,986
Other	(12,376)	18,404
Valuation allowance for deferred income tax assets	300,000	138,000
Income tax expense (benefit)	$ 822,707	(581)

(iv) Net deferred income tax assets and liabilities as of December 31, 2012 and 2011, were as follows:

		December 31, 2012	December 31, 2011
Deferred income tax assets			
Loss carryforwards	$	7,148,585	7,555,065
Allowance for possible losses on loans and receivables		566,046	670,213
Pension costs		14,526	24,757
Impairment loss		-	6,865
Unrealized foreign exchange loss (gain)		6,052	(4,797)
Loss on the transfer of foreclosed collateral to fixed assets		8,406	8,646
Provision for losses		888	1,490
Investment tax credits		1,890	5,356
Unrealized valuation gain on financial instruments		(1,216)	(1,328)
Amortization of goodwill		955	2,591
		7,746,132	8,268,858
Less: Valuation allowance		(1,227,000)	(927,000)
Net deferred income tax assets	$	6,519,132	7,341,858

(v) The Bank's unused investment tax credits mainly resulted from personnel training expenditures from the past five years under the original Statute for Upgrading Industries. The useable amount of the unused investment tax credits is limited to 50% of the annual income tax for each year, but is not limited in the expiry year. As of December 31, 2012, the Bank's unused investment tax credits and their related expiration years were as follows:

Occurrence year		Unused investment tax credits	Expiry year
2009	$	1,890 (assessed)	2013

(vi) In accordance with the amendment to the Income Tax Act, taxable losses from the past ten years as assessed by the authorities may be used to reduce net income in the current year.

As of December 31, 2012, loss carryforwards were as follows:

COSMOS BANK, TAIWAN

Notes to Financial Statements

Accrued Year	Total Credits Granted	Total Tax Credits Granted	Expiry Year
2006 (assessed)	$ 2,793,768	474,940	2016
2007 (assessed)	11,400,998	1,938,170	2017
2008 (reported)	13,803,205	2,346,545	2018
2009 (assessed)	10,187,530	1,731,880	2019
2010 (assessed)	2,624,589	446,180	2020
2011 (reported)	1,240,412	210,870	2021
	$ 42,050,502	7,148,585	

(vii) Imputed tax credits are summarized as follows:

	For the years ended December 31, 2012	December 31, 2011
Accumulated deficit after (and including) 1998	$ (759,269)	(16,942,000)
Ending balance of imputation credit account	1,032,587	1,015,999

(viii) Income tax returns through 2007 and from 2009 to 2010 have been examined by the tax authorities.

(u) Stockholders' equity

(i) Capital

On January 7, 2011, the FSC, under Jin Guan Yin Guo No. 10020000000, requested the Bank to propose practical plans to strengthen the Bank's capital structure and operating capital, improve the financial structure, and increase the adequacy ratio. According to the resolution of extraordinary board meeting on May 16, 2011, and the resolution of the stockholders' meeting on June 28, 2011, the Bank will raise capital by a private placement of common shares and issue a maximum of 200,000 thousand shares, with a face value of 10 dollars per share; and the total face value of the private placement should not exceed $2,000,000. The actual issued private placement shares and total face value would be decided by the actual issue price. As one possible investor is a related party of the Bank, the issue price would be determined and calculated in accordance with the "Directions for Public Companies Conducting Private Placements of Securities". On August 30, 2011, the FSC, under Jin Guan Yin Guo No. 10000293260, requested the Bank to positively execute the plan for raising cash capital which plan was agreed by the shareholders' meeting held on June 28, 2011, to improve the financial structure and to make an assessment of the capital reduction to compensate for the losses in order to avoid section 64 of the Banking Act of the Republic of China. On November 16, 2011, the Bank replied to the FSC regarding the plan for the capital increase and reduction. For the capital increase, the Bank will seek other potential investors, and a current investor approved by the shareholders' meeting will contribute in capital after the nonperforming loans of Prince Motors Group are resolved. For the capital reduction, the Bank will assess the proper capital reduction to offset accumulated loss, and improve the financial structure. Pursuant to the laws and regulations, the abovementioned plan for the private placement of the common shares should be completed within one year after the resolution of the shareholders' meeting. However, due to the market conditions when the capital was raised, the Bank did not complete the plan in time. Pursuant to the resolution of the stockholders' meeting held on June 22, 2012, the original plan for the private placement of common shares approved by the resolution of the stockholders' meeting on June 28, 2011, was stopped. In addition, according to the resolution of an extraordinary board meeting on May 10, 2012, the Bank will raise capital by a private placement of the common shares and issue a maximum of 200,000 thousand shares, with a face value of 10 dollars per share; and the total face value of the private placement should not exceed $2,000,000. Since the price for the private placement of common shares is lower than the book value per share, the resolution of the stockholders' meeting rejected the Bank's plan for the private placement of common shares. In order to improve the financial structure, the board meeting held on October 3, 2012, came up with a decision to reduce the capital by $13,281,204 to offset accumulated loss, which constitutes a capital reduction of approximately 46.54%. After the capital reduction, the Bank will issue 100,000 thousand private placement of common shares, with a face value of $10 per share, and the total face value of the private placement of common shares increase should be within $1,000,000. The actual issued private placement shares and total face value would be decided by the actual issued price. The abovementioned capital reduction and the private placement of common shares issuance have been approved during the resolution of extraordinary stockholders' meeting held on November 23, 2012. Effective on December 14, 2012, FSC approved the capital reduction case according to Jin Guan Zheng No. 1010056164, and the Board set the base date for capital reduction as December 28, 2012.

In addition, on December 5, 2012, the Board decided to enforce MCB which amounted to $16,170,000 into common shares on December 27, 2012. The conversion price was NT$13.1436263 per share, and the Bonds should be converted into 1,230,254 thousand shares, which increase the share capital by $12,302,541. Therefore, the liabilities and capital surplus of MCB amounting to $1,749 and $12,919,012 were written off, causing a share premium of $618,220. The registration for the changes in the abovementioned capital reduction and the conversion of MCB into common shares has been approved by the ministry of Economic Affairs, ROC on January 14, 2013.

As of December 31, 2012 and 2011, the Bank had authorized capital stock amounting to $200,000,000 (of which $12,580,000 was reserved for employee stock options). The issued capital amounted to $15,255,976 and $16,234,639 as of December 31, 2012 and 2011, respectively. The face value of each share is 10 dollars.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(ii) Capital surplus

Following the amendment of the ROC Company Act announced on January 2012, realized capital surplus can only be used to be capitalized or distributed as cash dividends after offsetting accumulated deficits. Realized capital surplus mentioned above includes the proceeds received in excess of the par value of common stock issued, and any amounts donated to the Company. When capital reserve is capitalized in accordance with Regulations Governing the offering and issuance of securities by securities issuers, the amount capitalized should not exceed 10% of paid-in capital and should not be capitalized in the fiscal year when the company undergoes capital increase in cash. (Subject to the ministry of Economic Affairs, ROC)

Capital surplus was as follows:

		For the years ended December 31, 2012	December 31, 2011
Share premium	$	618,220	-
Mandatory convertible bonds		-	12,919,012
Issuance of employee stock options		105,799	77,314
Expiration of options		12,712	12,712
	$	736,731	13,009,038

As of December 27, 2012, the Bank has converted all MCB into common shares, writing off the capital surplus of MCB amounting to $12,919,012. A premium amounting to $618,220, incurred during the conversion is recognized as share premium. Please refer to not 4(q).

(iii) Legal and special reserve

1) Under the ROC Company Act, the Bank must retain its earnings as legal reserve until such retention equals the total amount of capital. According to the amendment of the ROC Company Act as of January 2012, the Bank may, pursuant to a resolution by a shareholders' meeting, capitalize the amount of its reserve that exceeds 25% of the share capital by issuing new shares to shareholders or by distributing a cash dividend when it incurs no loss. In addition, under the ROC Banking Act, the Bank shall retain 30% of its after-tax earnings as legal reserve before distributing them. Before the amount of legal reserve has been retained up to the total amount of capital, the maximum amount of earnings distributed in cash shall not exceed 15% of the total capital. This restriction is not applied if the amount of legal reserve equals the amount of the total capital, or if the Bank is in sound financial condition and is in compliance with the ROC Company Act.

2) Under the Law Governing Mergers of Financial Institutions, loss on the sale of nonperforming loans is amortized using the straight-line method over five years, and a special reserve equal to the loss should be appropriated.

3) In compliance with the "Regulations Governing Securities Firms" and the "Regulations Governing Futures Commission Merchants", a securities firm and futures commission merchant should recognize a reserve for trading loss. Effective from January 11, 2011, the Financial Supervisory Commission (FSC) revoked the rules regarding the provision for trading losses reserve for securities firms and futures commission merchants according to FSC Jin Kuan Cheng Chuan No. 0990073857 and Jin Kuan Cheng Chi No. 1000000289, respectively. As of December 31, 2010, the amount of trading losses reserve which securities firms and futures commission merchants had made provision for should be reclassified as special reserve. The special reserve can only be used to offset a deficit or when the special reserve reaches 50% of total paid-in capital, of which 50% can be capitalized.

   The Bank reclassified the reserve for trading loss amounting to $8,467 to special reserve according to the abovementioned modification of regulations and recorded as offsetting of accumulated deficit against special reserve in the stockholder's meeting on June 22, 2012.

(iv) Appropriation of earnings and dividend policy

The Bank's earnings appropriation policy is aligned with its goals to maintain the adequacy of capital and provide for future financial needs. Under the Bank's articles of incorporation (the "Articles"), 30% of annual net income, less any losses of prior years, should be appropriated as legal reserve and special reserve (booked as a deduction item of stockholders' equity). The remainder plus unappropriated earnings of prior years should be appropriated 80% as dividends to stockholders, and the remaining 20% should be appropriated as follows:

1) 80% as bonus to stockholders

2) 15% as bonus to employees

3) 5% as remuneration to directors

The cash dividends should be at least 10% of the total dividends to be paid/distributed. However, if the cash dividend is less than 0.1 dollar per share, the entire dividend should be paid in stock.

COSMOS BANK, TAIWAN

Notes to Financial Statements

Under a directive of the Securities and Futures Bureau, the Bank has to appropriate a special reserve from current year's earnings and the unappropriated earnings generated in prior years that is equal to the debit balance of any stockholders' equity account (except deficit). The special reserve should be adjusted on the basis of the debit balance of the stockholders' equity account as of year-end.
In making this appropriation, the Bank should consider its capital adequacy ratio and long-term financial position, and stockholders' cash needs, and the shareholders' meeting may decide not to appropriate any dividend and bonus in full or in part.

The appropriation of the deficit for the years ended December 31, 2011 and 2010, resolved by the board of directors and stockholders on June 22, 2012, and June 28, 2011, respectively, was as follows:

	2011	2010
Accumulated deficit, beginning of 2011 and 2010	$ (16,680,336)	(13,272,434)
Special reserve decrease to offset accumulated deficit	8,467	-
Net loss	(261,664)	(3,407,902)
Accumulated deficit	$ (16,933,533)	(16,680,336)

Information on appropriation of earnings or offsetting of a deficit will be available on the Market Observation Post System of the Taiwan Stock Exchange (http://mops.twse.com.tw) after the related meetings.

For the years ended December 31, 2012 and 2011, the Bank recorded no undistributed earnings and therefore is not required to accrue any employee bonuses or directors' remuneration.

(v) Employee stock option plans and the stock appreciation rights plan for executives

To attract and encourage professionals, enhance employees' loyalty to the Bank, and create maximum benefits to stockholders and the Bank, the board of directors approved on May 22, 2008, an employee stock option plan, and the Bank registered this plan with the FSC. The Bank issued 838,700 thousand units of employee share options, and a unit can convert into one common share of the Bank. As a result, the Bank retained 838,700 thousand new shares of common stock for the plan.

The abovementioned plan expired on June 11, 2009, and the Bank's board of directors approved the "2010 regulation on the issuance and subscription of employee stock options" in the meeting of the board of directors held on February 25, 2010. The options were approved by the Securities and Futures Bureau, Financial Supervisory Commission. The issuance amount of the new employee stock options was 161,391 thousand units and considered the effect of capital reduction. Meanwhile, the Bank's board of directors approved the stock appreciation rights plan for executives on December 22, 2009, and the Bank could settle the stock appreciation rights by the Bank's common shares or by cash.

First, according to the resolution of the Bank's board of directors' meeting held on April 26, 2011, the Bank issued employee stock options amounting to 37,204 thousand shares, which included stock options to substitute for those previously given to several managers on various grant dates from May 5, 2008, to July 9, 2010, at an exercise price of 8.12 dollars for each share. The modifications of the options for those shares previously given to several managers did not increase the fair value of the original options' fair value, and the modifications of the options' terms should be treated as if the modifications had never occurred, and the Bank expensed the original fair value of the options.

Second, according to the resolution of the Bank's board of directors' meeting held on August 25, 2011, the Bank issued employee stock options for 19,439 thousand shares at an exercise price of $6.24 dollars for each share.

The information on employee benefits from share-based payment transactions for the years ended December 31, 2012 and 2011, is as follows:

		For the years ended December 31, 2012	December 31, 2011
Expenses resulting from equity-settled share-based payment transactions	$	78,788	42,921
Balance of liabilities resulting from share-based payment transactions		85,055	34,752
Additional paid-in capital resulting from equity-settled share-based payment transactions		28,485	38,645

The information on the Bank's share-based payment transaction plans as of December 31, 2012, is as follows:

COSMOS BANK, TAIWAN

Notes to Financial Statements

	December 31, 2012 Stock appreciation rights plan of executives	December 31, 2012 Employee stock option plan
Grant date	2009.12.22~2012.12.23	2011.5.3~2011.8.29
Grant amount (thousand shares)	28,806	40,670
Vesting period	2009.12.22~2016.12.22	2011.5.3~2015.8.28

The details of the Bank's employee benefit plan are as follows:

	December 31, 2012			
	Stock appreciation rights plan of executives		Employee stock option plan	
	Units (thousand shares)	Exercise price (dollars)	Units (thousand shares)	Exercise price (dollars)
Outstanding units as of January 1, 2012	25,342	$ 6.11~7.77	54,524	6.24~8.12
Amount granted during the period	3,464	8.66	-	-
Amount forfeited during this period	-	-	(13,854)	6.24~8.12
Outstanding units as of December 31, 2012	28,806		40,670	

	December 31, 2011			
	Stock appreciation rights plan of executives		Employee stock option plan	
	Units (thousand shares)	Exercise price (dollars)	Units (thousand shares)	Exercise price (dollars)
Outstanding units as of January 1, 2011	16,571	$ 7.33	14,441	6.53~20.21
Amount granted during this period	8,771	6.11~7.77	56,643	6.24~8.12
Amount forfeited during this period	-	-	(2,119)	6.24~8.12
Amount expired during this period	-	-	(14,441)	6.53~20.21
Outstanding units as of December 31, 2011	25,342		54,524	

The Bank uses the Black-Scholes Option Model and the Binomial-Lattice Option Model to estimate the fair value of the stock appreciation rights plan and employee stock option plan, respectively. The Bank takes into account the following factors:

	December 31, 2012	
	Stock appreciation rigbts plan of executives	Employee stock option plan
Exercise price (dollars)	$ 6.11~8.66	6.24~8.12
Stock price on grant date (dollars)	6.11~8.66	6.24~8.12
Weighted-average expected contractual remaining life (years)	3.49~6.99	6.66~6.76
Expected share price volatility (%)	37.31	32.84~74.10
Risk-free interest rate (%)	0.83~1.14	1.60~1.62

(vi) Unrealized gain or loss on financial instruments

The movements of unrealized gain or loss on available-for-sale financial instruments for the years ended December 31, 2012 and 2011, were as follows:

	For the years ended	
	December 31, 2012	December 31, 2011
Balance, beginning of year	$ 24,240	12,244
Recognized in stockholders' equity	149,079	82,368
Transferred to profit or loss	(53,820)	(70,372)
Balance, end of year	$ 119,499	24,240

(v) Earnings per share

	For the years ended			
	December 31, 2012		December 31, 2011	
	Before income tax	After income tax	Before income tax	After income tax
Basic earnings per share (New Taiwan dollars):				
Net income (loss)	$ 3,715,767	2,893,060	(262,245)	(261,664)
Weighted-average number of shares outstanding (thousand shares)	876,889	876,889	1,623,464	1,623,464
Basic earnings per share (New Taiwan dollars)	$ 4.24	3.30	(0.16)	(0.16)
Retroactively adjusted weighted average of outstanding shares (thousands)			867,904	867,904
Basic earnings per share (New Taiwan dollars)			$ (0.30)	(0.30)

COSMOS BANK, TAIWAN

Notes to Financial Statements

	For the years ended			
	December 31, 2012		December 31, 2011	
	Before income tax	After income tax	Before income tax	After income tax
Diluted earnings per share:				
Net Income for calculating diluted earnings per share	$ 3,715,767	2,893,060		
Weighted-average number of shares outstanding (thousand shares)	876,889	876,889		
Effects of dilutive potential common stock:				
Employee stock options (thousand shares)	2,961	2,961		
Weighted-average number of common share outstanding for calculating diluted earnings per share (thousand shares)	879,850	879,850		
Diluted earnings per share (New Taiwan dollars)	$ 4.22	3.29		

There was a net loss for the year ended December 31, 2011; thus, the basic loss per share equaled the diluted loss per share for the year ended December 31, 2011.

(w) Financial instruments

(i) Fair value of financial instruments

	December 31, 2012		December 31, 2011	
Financial assets	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Non-derivative financial assets				
Cash and cash equivalents	$ 2,482,322	2,482,322	2,586,617	2,586,617
Due from the Central Bank and call loans to banks	13,907,049	13,907,049	8,166,189	8,166,189
Financial assets at fair value through profit or loss, net	67,535	67,535	293,149	293,149
Receivables, net	5,441,343	5,441,343	4,021,345	4,021,345
Discounts and loans, net	85,237,711	85,237,711	79,661,901	79,661,901
Available-for-sale financial assets, net	17,088,847	17,088,847	9,164,686	9,164,686
Held-to-maturity financial assets, net	15,600,000	15,600,000	19,850,000	19,850,000
Other financial assets, net	801,835	See ii(4)	839,684	See ii(4)
Refundable deposits	106,377	106,377	924,822	924,822
Derivative financial assets				
Trading				
Forward exchange contracts	-	-	4	4
Foreign-currency swap contracts	106	106	-	-

Financial liabilities	December 31, 2012 Carrying Amount	December 31, 2012 Estimated Fair Value	December 31, 2011 Carrying Amount	December 31, 2011 Estimated Fair Value
Non-derivative financial liabilities				
Due to the Central Bank and other banks	$ 1,306,850	1,306,850	4,124,277	4,124,277
Securities sold under repurchase agreements	8,212,708	8,212,708	7,170,249	7,170,249
Payables	2,337,729	2,337,729	2,123,168	2,123,168
Deposits and remittances	126,509,252	126,509,252	112,944,159	112,944,159
Other financial liabilities	14,043	14,043	616,051	616,051
Guarantee deposits received	182,729	182,729	181,529	181,529
Derivative financial liabilities				
Trading				
Forward exchange contracts	19	19	319	319
Foreign-currency swap contracts	10	10	991	991

(ii) Methods and assumptions applied to estimate the fair value of financial instruments are summarized as follows:

1) For financial instruments measured at fair value through profit or loss and available-for-sale financial assets, fair value is best determined on the basis of quoted market prices. However, in many instances where there are no quoted market prices for the Bank's various financial instruments, fair values are based on estimates using other financial data and appropriate valuation methodologies. Relevant valuation methods are as follows:

A. Money market short-term notes: TAIBIR 02 published by Taiwan Depository and Cleaning Corporation (TDCC) at balance sheet date is the fair value.

B. Listed stocks and public beneficiary securities: For listed stocks, the closing price at the balance sheet date is the fair value; for open-end funds, the net asset value of the fund at the balance sheet date is the fair value.

C. Government bonds: Generally, the closing price on the GreTai Securities Market at the balance sheet date is its fair value; if there is no transaction involving these securities, the principle is to use the government bond prices in multiple periods for estimating the fair value. Under special situations where fair value is unavailable, either the trading price on recent business days or the interest rate during maturity duration will serve as the reference interest rate. Regardless of the reference point chosen, it will be used with the over-the-counter bond security interest rate and the hundred dollar reference price, which, when put into functions, will yield the reference price.

COSMOS BANK, TAIWAN

Notes to Financial Statements

D. Company bonds: Generally, the closing price on the GreTai Securities Market at the balance sheet date is the fair value; if there is no transaction involving these securities, the principle is to use the latest trading price on the GreTai Securities Market in the most recent period of 30 business days. Under special situations where fair value is unavailable, the fair value of the bonds provided by the GreTai Securities Market serves as the reference price.

E. Convertible bonds: The closing price on the TWSE or GreTai Securities Market at the balance sheet date is its fair value; if there is no transaction involving these securities, the latest trading price in the most recent period serves as the reference price.

F. Foreign bonds: The market price of Bloomberg's information systems at the balance sheet date at TW 4:30 p.m. is at its fair value.

G. Derivative financial assets: If there are no active market prices for derivative financial instruments, the fair values of forward contracts will be calculated using the discounted cash flow method, while the fair values of options are provided by counter-parties. The price of the forward foreign exchange agreement is valued at the daily closing value of the spot rate from Taipei Forex, Inc. (Reuters' TAIFX1) plus the swap points (Reuters' TAIFX2). When the due date comes between the two different market price reporting deadlines, we use the fair value of the spot rate that is calculated from the linear interpolation and is used to measure the fair values of individual contracts. The values of the stock index futures and TAIEX options are calculated using the prices quoted by the Taiwan Futures Exchange. The fair value of a cross-currency swap contract is calculated using the prices quoted by Bloomberg. When valuing the foreign exchange swap contracts, the Bank divides the contracts according to buying or selling spot rates, and evaluates them in the same way as that of the usual spot transactions. When evaluating the buying or selling forward foreign exchange agreements, the Bank evaluates the transaction in the same way as that of forward foreign transactions.

   On the balance sheet date of the Consolidated Financial Statements, the equivalent exchange rate between the foreign currency and USD is the same as the mid-market spot rate from Reuters' TAIFX1, and the equivalent exchange rate for between USD and TWD is the same as the closing price of Taipei Forex Inc.

2) The carrying amounts of short-term financial instruments approximate their fair values because of the short maturities of these instruments, such as cash and cash equivalents, due from the Central Bank and call loans to banks, net receivables (except tax refund receivable), refundable deposits, due to the Central Bank and other banks, payables (except tax payable), remittances, securities sold under repurchase agreements, and guarantee deposits received.

3) Discounts and loans, cash deposits, and MCB are interest-earning assets and interest-bearing liabilities. Thus, their carrying amounts represent fair value.

4) If there are trading prices or prices quoted by major market players, the latest trade prices or quoted prices are used as the basis for determining the fair value of debt instruments with no active market, and this kind of instrument would be classified as other financial assets. If equity investments carried at cost consist of unlisted stocks, these investments have no quoted market prices in an active market, and their fair value cannot be reliably measured. Thus, the Bank does not disclose their fair value.

5) Other financial liabilities include an appropriate loan fund. They are items that can be transferred to other banks at any time depending on the business situation. Thus, the carrying amounts of these liabilities represent their fair values.

The abovementioned valuation basis is applied consistently.

(iii) As of December 31, 2012 and 2011, the fair values of financial assets and liabilities determined using quoted market prices or estimated using a valuation method were as follows:

Financial assets	Quoted Market Prices December 31, 2012	Quoted Market Prices December 31, 2011	Estimated Market Prices December 31, 2012	Estimated Market Prices December 31, 2011
Non-derivative financial assets				
Cash and cash equivalents	$ -	-	2,482,322	2,586,617
Due from the Central Bank and call loans to banks	-	-	13,907,049	8,166,189
Financial assets at fair value through profit or loss, net	67,535	293,149	-	-
Receivables, net	-	-	5,441,343	4,021,345
Discounts and loans, net	-	-	85,237,711	79,661,901
Available-for-sale financial assets, net	8,214,213	6,145,410	8,874,634	3,019,276
Held-to-maturity financial assets, net	-	-	15,600,000	19,850,000
Other financial assets, net	-	-	801,835	839,684
Refundable deposits	-	-	106,377	924,822
Derivative financial assets				
Trading				
Forward exchange contracts	-	-	-	4
Foreign-currency swap contracts	-	-	106	-

COSMOS BANK, TAIWAN

Notes to Financial Statements

Financial liabilities	Quoted Market Prices December 31, 2012	Quoted Market Prices December 31, 2011	Estimated Market Prices December 31, 2012	Estimated Market Prices December 31, 2011
Non-derivative financial liabilities				
Due to the Central Bank and other banks	$ -	-	1,306,850	4,124,277
Securities sold under repurchase agreements	-	-	8,212,708	7,170,249
Payables	-	-	2,337,729	2,123,168
Deposits and remittances	-	-	126,509,252	112,944,159
Other financial liabilities	-	-	14,043	616,051
Guarantee deposits received	-	-	182,729	181,529
Derivative financial liabilities				
Trading				
Forward exchange contracts	-	-	19	319
Foreign-currency swap contracts	-	-	10	991

As mentioned above, the gain and loss recognized by the Bank on the valuation of financial instruments at estimated market prices for the years ended December 31, 2012 and 2011, were a gain of $7,151 and $7,811, respectively.

(iv) Fair value hierarchy information of financial instruments was as follows:

Items	December 31, 2012 Total	Level 1 (Note 1)	Level 2 (Note 2)	Level 3 (Note 3)
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Investment in stocks	$ 31,109	31,109	-	-
Investment in bonds	17,696	17,696	-	-
Others	18,730	18,730	-	-
Available-for-sale financial assets				
Investment in stocks	293,865	293,865	-	-
Investment in bonds	13,173,386	7,920,348	5,253,038	-
Others	3,621,596	-	3,621,596	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	106	-	106	-
Liabilities				
Financial liabilities at fair value through profit or loss	29	-	29	-

COSMOS BANK, TAIWAN

Notes to Financial Statements

Items	Total	December 31, 2011 Level 1 (Note 1)	Level 2 (Note 2)	Level 3 (Note 3)
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Investment in stocks	$ 2,401	2,401	-	-
Investment in bonds	249,929	249,929	-	-
Others	40,819	40,819	-	-
Available-for-sale financial assets				
Investment in stocks	209,386	209,386	-	-
Investment in bonds	8,565,562	5,936,024	2,629,538	-
Others	389,738	-	389,738	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	4	-	4	-
Liabilities				
Financial liabilities at fair value through profit or loss	1,310	-	1,310	-

Note 1: Fair value measurement for a financial instrument classified in Level 1 is determined as the quoted price for an identical financial instrument in an active market. In accordance with the fifth paragraph of SFAS No. 34 "Financial Instruments: Recognition and Measurement", the definition of active market fulfills all of the following conditions:

a) the products traded in the market are homogeneous;

b) willing parties are available anytime in the market;

c) price information is available for the public.

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

COSMOS BANK, TAIWAN

Notes to Financial Statements

a) The quoted price for an identical financial instrument in an active market; this means the fair value from the occurring market transaction prices for an identical financial instrument should be determined by its characteristics and terms of transaction. The fair value of a financial instrument has to be adjusted according to the observable market price of the identical financial instrument. The reasons for adjustments include time lag of the occurring market transaction prices for an identical financial instrument, wherein the quoted price does not represent the fair value at the measurement date. It also includes the difference in transaction terms for financial instruments, transaction prices involving related parties, and the relationship between the observable transaction prices of identical financial instruments and the market price of held financial instruments.

b) The quoted market price of the same or identical financial instruments in an inactive market.

c) The fair value is estimated on the basis of the results of a valuation technique, and the market inputs (i.e., interest rate, yield curve, and volatility rate) used were based on obtainable data from the market. An observable input means an input can be derived from market data and can reflect the expectation of market participants when the inputs were used in evaluating the prices of financial instruments.

d) A majority of inputs derived from observable market data, or the input correlation can be tested based on observable market data.

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

(v) For the years ended December 31, 2012 and 2011, the interest revenues for financial assets and liabilities other than loss measured at FVTPL were \$5,606,050 and \$5,245,916, respectively. The incurred interest expenses were \$1,348,191 and \$1,199,806, respectively.

(vi) For the years ended December 31, 2012 and 2011, the available-for-sale financial assets that were recognized as adjustments of stockholders' equity increased by \$149,079 and \$82,368, respectively.

(vii) Financial risk information

1) Market risk

The Bank is engaged in investment in interest rate instruments including time certificates of deposit, bonds, notes, and similar financial instruments. As a result, it is exposed to interest rate risk. Since the fair value of these financial instruments is sensitive to the market interest rates, the following is the sensitivity variation for a 0.01% increase in market interest rates.

(in thousands of New Taiwan dollars)

	December 31, 2012		
Currency	**Principal Amount**	**Average Duration (Years)**	**Effect on Fair Value per Variation of 0.01%**
New Taiwan Dollars	$ 15,908	10.21	18

(in thousands of New Taiwan dollars)

	December 31, 2011		
Currency	**Principal Amount**	**Average Duration (Years)**	**Effect on Fair Value per Variation of 0.01%**
New Taiwan Dollars	$ 250,927	8.00	199

The Bank monitors profit or loss on investment positions by mark-to-market valuation, and considers investment strategies and investment positioning.

The Bank evaluates the market risk of financial instruments using daily value at risk (VaR). VaR is the potential loss in market value of financial instruments held by the Bank within a certain confidence interval for a specified period. As of December 31, 2012 and 2011, the Bank had a price risk for holding government bonds, corporate bonds, shares of listed companies, and exchange rate instruments.

VaR of securities held by the Bank is shown in the table below. The Bank made an assumption that, if there is a 99% level of confidence, there is only a 1% chance that the Bank will incur a loss on its financial instruments within a day. In addition, based on VaR assumptions, there are only 2 out of 200 days when the Bank could face losses on its financial instruments. The average, highest and lowest amounts of the fluctuation of the interest rates or stock prices that were calculated at the daily VaR for the years ended December 31, 2012 and 2011, were as follows (thousands):

COSMOS BANK, TAIWAN

Notes to Financial Statements

Type of Market Risk		For the years ended December 31, 2012 Average	Highest	Lowest	December 31, 2011 Average	Highest	Lowest
Price risk of interest rate instrument	$	323	3,473	14	843	4,826	52
Price risk of equity instrument (includes hedged position)		9,133	21,410	2,245	9,619	31,143	3,360
Price risk of exchange rate instrument		551	2,402	22	1,073	10,231	65

2) Credit risk

The Bank is exposed to potential loss due to contract defaults by counter-parties or financial instrument issuers.

The Bank evaluates the creditworthiness of credit applications case by case, taking into account the applicant's credit history, credit rating, and financial condition. As of December 31, 2012 and 2011, about 61.01% and 59.11%, respectively, of total loans had been granted, and about 31.76% and 25.13%, respectively, had been secured. Collateral, mostly in the form of cash, real estate, marketable securities and other assets, may be required depending on the evaluation result. However, there is no collateral for issuing cash cards and credit cards. Thus, the Bank evaluates the creditworthiness of cash card and credit card holders regularly and modifies the credit facilities if necessary. If the counter-parties or others concerned (e.g., guarantors) break a contract, the Bank will execute its right on the collateral and decrease its credit risk.

In addition, the Bank discloses its maximum credit exposure without taking collateral fair value into consideration.

The maximum credit exposure of financial assets is the carrying amounts of financial assets on the balance sheet date.

The amounts of financial contracts with off-balance-sheet credit risks as of December 31, 2012 and 2011, were as follows:

		December 31, 2012	December 31, 2011
Credit card and cash card commitments	$	78,136,467	81,822,779
Guarantees and letters of credit issued		611,618	605,667
Irrevocable loan commitments		2,169,717	549,082

Concentration of credit risk exists when counter-parties to financial transactions are individuals or groups engaged in similar activities or activities in the same region which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. It is also affected by the nature of the borrowers' operations. The Bank does not have any significant concentration of transaction with any particular customer or counterparty; however, it has concentration of transactions with several groups and industries. The concentration of the Bank's credit risk was as follows:

	December 31, 2012	December 31, 2011
Groups		
Private enterprise	$ 24,692,492	27,491,614
Natural person	61,758,515	55,019,948
Non-profit enterprise	13,050	5,739
	$ 86,464,057	82,517,301
Industries		
Manufacturing	$ 7,775,379	8,702,200
Wholesale, retail and catering	6,533,482	8,953,031
Finance, insurance and real estate	7,561,324	5,881,620
	$ 21,870,185	23,536,851

3) Liquidity risk

As of December 31, 2012 and 2011, the liquidity reserve ratios were 21.68% and 18.80%, respectively. The Bank has sufficient equity capital and working capital to execute all contract obligations and has no liquidity risk.

The management policy of the Bank is to match the contractual maturity profile to the interest rates for its assets and liabilities. Because of uncertainties regarding the transaction conditions, however, the maturities did not fully match the interest rates, resulting in gaps that may potentially give rise to gain or loss.

The Bank applied appropriate ways to group assets and liabilities. The maturity analysis of assets and liabilities was as follows:

COSMOS BANK, TAIWAN

Notes to Financial Statements

	December 31, 2012						
	Due in One Month	Due after One Month Up to Three Months	Due after Three Months Up to Six Months	Due after Six Months Up to One Year	Due after One Year Up to Seven Years	Due after Seven Years	Total
Assets							
Cash and cash equivalents	$ 2,482,322	-	-	-	-	-	2,482,322
Due from the Central Bank and call loans to banks	9,587,772	1,838,030	585,460	1,033,866	861,921	-	13,907,049
Financial assets at fair value through profit or loss	67,641	-	-	-	-	-	67,641
Available-for-sale financial assets	3,929,770	27,658	39,251	81,049	7,467,963	5,543,156	17,088,847
Held-to-maturity financial assets	15,600,000	-	-	-	-	-	15,600,000
Equity investments under the equity method	-	-	-	-	-	62,007	62,007
Financial assets carried at cost	-	-	-	-	599,622	163,615	763,237
Receivables	1,566,396	1,999,995	472,021	963,367	1,609,935	3,099	6,614,813
Discounts and loans	5,668,176	8,881,657	11,165,135	15,115,742	25,666,297	19,967,050	86,464,057
Other financial assets - others	9,371	29,603	185	297	930	20,734	61,120
Foreclosed collateral	-	-	-	-	85,442	-	85,442
Refundable deposits	-	1,897	2,064	10,227	92,189	-	106,377
Liabilities							
Due to the Central Bank and other banks	468,470	39,752	-	798,628	-	-	1,306,850
Financial liabilities at fair value through profit or loss	29	-	-	-	-	-	29
Securities sold under repurchase agreements	4,194,878	3,887,830	130,000	-	-	-	8,212,708
Payables	1,419,766	507,154	68,243	90,430	281,816	-	2,367,409
Deposits and remittances	10,611,220	19,307,245	21,134,115	40,735,825	34,720,847	-	126,509,252
Other financial liabilities	3	5	8	16	14,011	-	14,043
Guarantee deposits received	2,443	-	-	180,286	-	-	182,729

	December 31, 2011						
	Due in One Month	Due after One Month Up to Three Months	Due after Three Months Up to Six Months	Due after Six Months Up to One Year	Due after One Year Up to Seven Years	Due after Seven Years	Total
Assets							
Cash and cash equivalents	$ 2,586,617	-	-	-	-	-	2,586,617
Due from the Central Bank and call loans to banks	4,657,194	1,265,345	447,604	996,469	799,577	-	8,166,189
Financial assets at fair value through profit or loss	293,153	-	-	-	-	-	293,153
Available-for-sale financial assets	1,718,382	296,250	-	49,530	7,100,524	-	9,164,686
Held-to-maturity financial assets	13,800,000	3,800,000	2,050,000	200,000	-	-	19,850,000
Equity investments under the equity method	-	-	-	-	-	47,494	47,494
Financial assets carried at cost	-	-	-	-	-	769,582	769,582
Receivables	1,633,799	374,140	504,815	1,046,289	2,502,005	3,472	6,064,520
Discounts and loans	4,673,988	8,292,944	11,031,171	15,468,460	26,651,439	16,399,299	82,517,301
Other financial assets - others	39,821	30,470	93	150	469	10,450	81,453
Foreclosed collateral	-	-	-	-	87,311	-	87,311
Refundable deposits	-	11,249	794	8,847	903,932	-	924,822
Liabilities							
Due to the Central Bank and other banks	253,426	915,132	1,319,870	1,635,849	-	-	4,124,277
Financial liabilities at fair value through profit or loss	1,310	-	-	-	-	-	1,310
Securities sold under repurchase agreements	4,085,192	3,085,057	-	-	-	-	7,170,249
Payables	1,529,608	165,944	86,385	95,469	274,050	-	2,151,456
Deposits and remittances	11,428,872	19,230,691	16,207,019	36,173,338	29,904,239	-	112,944,159
Other financial liabilities	611	161,257	163,437	290,746	-	-	616,051
Guarantee deposits received	30	68	-	181,431	-	-	181,529

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

When market interest rates change, the cash flows on floating-interest-rate assets will also fluctuate, and the Bank may suffer risks due to any adverse interest rate changes. Thus, the Bank used cross-currency swap contracts to reduce risks from adverse changes in market interest rates.

(viii) Risk control and hedge policy

The Bank documents its risk management policies, including overall operating strategies and risk control philosophy. Each business unit, when engaged in its operations, it must abide by the risk management policies and hedging policies as approved by the Board of Directors in order to implement risk management, strengthen businesses, and limit risks that may arise from operations to an acceptable level. The Bank's risk management policies and other related regulations are regularly adjusted to match any changes in the Bank's overall organization structure, operating plan, management targets, and strategy. The Board of Directors periodically monitors and checks the Bank's risk management policy along with the availability and execution performance of strategies in order to appropriately ensure and manage the Bank's risk.

5 Related-party Transactions

(a) Related parties

Related Party	Relationship with the Bank
S.A.C. PEI Taiwan Holdings B.V.	Main stockholder and director of the Bank
S.A.C. PEI Asia Investments Holdings II S.à r.l. ("Lux. Co. II")	Parent company of S.A.C. PEI Taiwan Holdings B.V.
S.A.C. PEI Asia Investment Holdings I S.à r.l. ("Lux. Co. I")	Parent company of Lux. Co. II
S.A.C. Private Equity Investors, L.P. ("S.A.C. PEI")	Parent company of Lux. Co. I
GE Capital Asia Investments Holdings B.V. ("GE Asia Holdings")	Main stockholder
GE Capital Taiwan Holdings Inc. ("GE Holdings")	Affiliate of GE Asia Holdings
General Electric International Inc. (GEII)	Affiliate of GE Asia Holdings
GE Money Taiwan Ltd.	Director of the Bank
Cosmos Insurance Brokers Co., Ltd.	100%-owned investee

COSMOS BANK, TAIWAN

Notes to Financial Statements

Related Party	Relationship with the Bank
Others	1. A company whose chairman or president serves as the chairman or president of the Bank or is a second-degree relative of the chairman or president of the Bank. 2. Other banks' directors and managers, as well as their spouses or second-degree relatives 3. Affiliates

Note: The Bank only disclosed transactions during the term of relationship as a related party, and the balance was not disclosed when the relationship changed to non-related party as of the balance sheet date.

(b) Significant transactions between the Bank and related parties

(i) Loans, deposits

	December 31, 2012		For the year ended December 31, 2012	
	Amount	%	Interest Rate (%)	Revenue (Expense) Amount
Loans	$ 27,645	0.03	1.42~18.25	473
Deposits	$ 308,433	0.24	0~5.99	(5,673)

	December 31, 2011		For the year ended December 31, 2011	
	Amount	%	Interest Rate (%)	Revenue (Expense) Amount
Loans	$ 31,120	0.04	1.29~18.25	662
Deposits	$ 240,186	0.21	0~5.99	(4,963)

(i) Loans

For the year ended December 31, 2012

(in thousands of New Taiwan dollars)

Type	Account Volume (Number of Names)	Highest Balance	Ending Balance	Loan Classification		Collateral	Differences in Transaction Terms from Those for Unrelated Parties
				Normal Loans	Nonperforming Loans		
Consumer loans for employees	23	$ 17,376	10,958	10,958	-	Real estate; some loans had no collateral	None
Self-use housing mortgage loan	14	33,343	16,607	16,607	-	Real estate	None
Other loans	1	884	80	80	-	Time deposit	None

For the year ended December 31, 2011

Type	Account Volume (Number of Names)	Highest Balance	Ending Balance	Loan Classification		Collateral	Differences in Transaction Terms from Those for Unrelated Parties
				Normal Loans	Nonperforming Loans		
Consumer loans for employees	10	$ 11,310	5,517	5,517	-	Real estate; some loans had no collateral	None
Self-use housing mortgage loan	11	29,580	25,603	25,603	-	Real estate	None
Other loans	1	703	-	-	-	Time deposit	None

The terms of the related-party transactions are the same as those of nonrelated-party transactions except for the preferential interest rate on the deposits for the Bank's employees with limited deposit amounts.

In accordance with articles 32 and 33 of the Banking Act of the Republic of China, no unsecured credit shall be extended by the Bank to any interested party, and for any secured credit extended by the Bank to any interested party, the terms of such extended credit shall not be more favorable than those terms offered to other same-category customers. However, the foregoing rule on unsecured credit shall not apply to consumer loans and loans extended to the government.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(ii) Personnel secondment service agreements

The Bank signed a personnel secondment service agreement with GEII and quarterly paid GEII the personnel secondment fees for the period from January 1, 2009, to December 31, 2010. The agreement expired on December 31, 2010. In consideration of business requirements, the Bank extended the agreement to December 31, 2012, in accordance with the resolution of the Board of Directors on October 27, 2011. The Bank may terminate the agreement at any time by giving a one-month prior written notice to GEII. For the years ended December 31, 2012 and 2011, the secondment fees amounted to $11,168 and $27,400, respectively, and were recorded under other administrative and management expenses. As of December 31, 2012 and 2011, the payables from personnel secondment fees amounting to $2,930 and $6,985, respectively, were recorded under expenses payable.

(iii) To improve its car loan operations, the Bank signed a car loan acquisition contract with GE Money to buy car loans and a contract for the purchase from Mega International Commercial Bank of a car loan served by GE Money amounting to $2,383,050 for $2,478,188, with a premium rate of about 4%. The transaction price was calculated using the future cash flow model. In addition, according to the car loan acquisition contract, GE Money should be responsible for a car loan loss in excess of 1.5% of the principal balance and for the collection of overdue car loans. The expenses arising in collections should be paid by the Bank. GE Money and the Bank agreed to set June 30, 2011, as a cut-off date for car loan losses. In the third quarter of 2011, the Bank and GE Money finished calculating the losses from the car loans. The Bank recovered $78,682 from reselling the car loans and also recognized interest revenue and net revenues other than interest amounting to $3,451 and $15,897, respectively.

(iv) Fee income and lease revenues

The Bank, Cosmos Insurance Broker Co., Ltd., and other insurance companies signed contracts for three-party cooperative promotion and marketing to sell insurance products through the channels of the Bank. The Bank's channel fee income from the abovementioned transactions was $415,166 and $315,330 for years ended December 31, 2012 and 2011, respectively. Moreover, Cosmos Insurance Broker Co., Ltd. and the Bank signed a lease contact. Under this lease contract, the Bank provides its offices to Cosmos Insurance Broker Co., Ltd. The Bank recognized lease revenues which amounted to $207 and $120 for the years ended December 31, 2012 and 2011, respectively.

(v) Remuneration

As of 2012 and 2011, the amounts of salaries and remuneration payable to director, general manager executives and other major executives were as follows:

		2012	2011
Salaries	$	104,220	124,954
Bonus and special allowances		45,530	31,174
Business execution expense		14,493	4,341
Pension		-	6,915
	$	164,243	167,384

In addition to the abovementioned service costs, the Bank also paid housing rental, car rental, driver, and other personal expenses amounting to $6,686 and $9,307, and the amounts of remuneration for directors who also served the consultant functions were $3,550 and $3,514 in 2012 and 2011, respectively. Meanwhile, the Bank accrued or contributed pension expense, service cost of employee stock option plans, and service cost of stock appreciation rights plans amounting to $68,649 and $21,745 in 2012 and 2011, respectively.

6 Pledged Assets

(a) Government bonds with a carrying value of $21,300 as of December 31, 2012 were recorded as available-for-sale financial assets. Government bonds with a carrying value of $44,500 as of December 31, 2011 were as follows:

(i) financial assets at fair value through profit or loss that amounted to $33,500.

(ii) available-for-sale financial assets which amounted to $11,000.

Government bonds had been placed with the court as guarantee deposits for the Bank's request for the court's approval to seize and sell the properties of the Bank's debtors to satisfy the debtors' obligations to the Bank.

(b) As of December 31, 2012 and 2011, the Bank had provided government bonds (recorded as available-for-sale financial assets, net) with carrying value of $220,000 as the reserve and guarantees for the Bank's operating business.

(c) As of December 31, 2012 and 2011, certificates of foreign exchange time deposit of $29,418 and $30,377 (recorded as other financial assets, net), respectively, had been provided as collateral for spot exchange transactions.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(d) As of December 31, 2012 and 2011, the Bank provided a Central Bank negotiable certificate of deposit amounting to $50,000 (recorded as held-to-maturity financial assets, net) and a Central Bank certificate of deposit amounting to $50,000 (recorded as other financial assets, net), respectively, as the collateral for collections of national tax revenues.

7 Commitments and Contingencies

In addition to the disclosures in note 4(w), the commitments as of December 31, 2012, were as follows:

(a) The Bank leases from unrelated parties the premises occupied by its branches under operating lease agreements expiring on various dates until July 31, 2019. The leases also require the payment of monthly, quarterly, semiannual or annual rentals, or a refundable rental deposit. Refundable deposits on these leases amounted to $68,540 as of December 31, 2012.

Future minimum annual rentals on these leases as of December 31, 2012, were as follows:

Period	Amount
2013	$ 189,234
2014	128,890
2015	82,788
2016	69,294
2017	32,904
	$ 503,110

(b) Significant outstanding purchase contracts

Item	Contract amount	Prepayment	Payable
Banking information and operating systems	$ 87,918	36,330	51,588
Decoration and engineering project in branches	8,765	-	8,765
	$ 96,683	36,330	60,353

(c) The Bank's ex-chairman, Sheng-Fa Hsui, and ex-vice chairman, Xian-Rong Hsui, were prosecuted for involvement in illegal events. With the exception of the insider trading portion, which is still being tried, the defendants have been ruled by the Taipei District Court to be in violation of the Banking Act and sentenced. The Bank is now being managed by a new management team, which uses high standards to administer the Bank, and would not be influenced by this legal case.

(d) In response to the rapid business development and IT demands for innovative products, the Bank plans to outsource its IT operations to improve IT service levels and to rapidly respond to the business development and changes in external regulations. The board of directors' meeting held on October 30, 2012 approved the plan for outsourcing the IT operations to International Business Machines Corp., Taiwan (IBM, Taiwan) for the next 10 years, starting from October 31, 2012. According to the IT outsource contract, besides extra services being charged by professional rates, the Bank has to pay a total of $1,473,600 for the basic framework, support service, IT application service and integration and transformation of server and so on in the future contract periods starting from January, 2013.

(e) In order to protect claims, the Bank acted vigorously in regards to Prince Motors' overdue debts. In 2012, the court enforced an auction on Tucheng plant and Dun Nan building collateral and allocated $3,923,560 and 1,950,000 to the Bank respectively. However, the Prince Motors objected the amounts allocated to the Bank by the court, which affect Tucheng plant and Dun Nan Building amounting $21,672 and $163,682 respectively. Also, in December 2012, a third party regards the property rights of Dun Nan building as fraudulently infringing upon the rights of the creditors (credit litigation amounted to $481,157). As of the report date, the abovementioned litigation has not been settled. However, upon the judgments of the lawyers, the Bank has a high possibility of winning the case.

8 Major Casualty Losses: None

9 Significant Snbsequent Events: None

10 Others

(a) Personnel, depreciation and amortization expenses

	For the years ended December 31, 2012	December 31, 2011
Personnel expenses		
Salaries	$ 1,772,790	1,610,714
Insurance	127,033	118,086
Pension	71,278	128,908
Others	75,763	55,672
Depreciation expenses	103,738	120,292
Amortization expenses	102,621	101,641

For the year ended December 31, 2012 and 2011, the depreciation on leased assets amounted to $2,415 and $2,639, respectively, recorded as reductions of rental revenue under net revenues other than interest in the income statements.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(b) Trust business under the Trust Law

(i) Trust-related items, as shown in the following balance sheets, trust property list, and income statement

Balance Sheets of Trust Accounts
December 31, 2012 and 2011

(in thousands of New Taiwan dollars)

Trust Assets	2012	2011
Cash in bank	$ 232,744	210,915
Short-term investments		
Bonds	20,485	52,171
Common stock	105,040	107,020
Mutual funds	29,635,909	29,961,132
Structured products	467,079	548,932
Exchange traded fund (ETF)	45,560	24,005
Accounts receivable		
Notes receivable	50,448	-
Other accounts receivable	331	594
Real property	-	16,200
Intangible assets		
Superficies	984,534	984,534
Prepaid account		
Prepaid taxes	-	38
Offset against business tax payable	-	339
Other Assets		
Payments in advance	14	15
Refundable deposits	-	583
Assets leased to others - real estate	3,693	743
Trust assets	$ 31,545,837	31,907,221

Trust Liabilities	2012	2011
Account payables		
Accrued expenses	$ 2,316	5,552
Construction retented payable	510	-
Business tax payable	243	-
Other payables	152,351	151,857
VAT tax payables	-	200
Advance receipts		
Advance rental receipts	50,448	-
Other advance receipts	163	166
Receipts under custody		
Property tax	-	19
Land tax	-	648
Guarantee deposits received	325	-
Other liabilities	2,000	1,500
Trust capital		
Money	30,275,473	30,693,260
Real property	-	16,200
Superficies	984,534	984,534
Accumulated earnings	77,474	53,285
Trust liabilities	$ 31,545,837	31,907,221

Trust Property List
December 31, 2012 and 2011

(in thousands of New Taiwan dollars)

Investment Items		2012	2011
Cash in bank	$	232,744	210,915
Short-term			
Mutual funds		29,635,909	29,961,132
Bonds		20,485	52,171
Common stock		105,040	107,020
Structured products		467,079	548,932
Exchange traded fund (ETF)		45,560	24,005
Real property			
Others		-	16,200
Intangible assets			
Superficies		984,534	984,534
	$	31,491,351	31,904,909

Statements of Income on Trust Accounts
For the years ended December 31, 2012 and 2011

(in thousands of New Taiwan dollars)

		2012	2011
Revenues			
Investment revenues	$	2,111	1,093
Interest revenues		1,016,139	1,008,617
Rental revenues		26,499	23,428
Other revenues		711	1,042
Revenues from beneficiary certificates		1 045,460	1 034,180
Loss from trading properties		(706,747)	(903,032)
Expenses			
Management fees		(23,003)	(13,397)
Operating costs		(2,811)	(1,814)
Sales expenses		(151)	(621)
Operating expense		(384)	(100)
Levies		(38)	(228)
Expense from beneficiary certificates		(26,387)	(16,160)
Net income	$	312,326	114,988

Note: The above statements of income are for the business of the trust division, and the amounts are not included in the profit and loss of the Bank.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(ii) Nature of trust business operations under the Trust Law: Please refer to note 1.

(c) Average amount of, and average interest rate on, interest-earning assets and interest-bearing liabilities, and significant foreign currency financial assets and liabilities are summarized as follows:

(i) Average balance was calculated as the average daily balances of interest-earning assets and interest-bearing liabilities. The average amount of, and average interest rate on, interest-earning assets and interest-bearing liabilities for the years ended December 31, 2012 and 2011, were as follows:

	For the year ended December 31, 2012	
	Average Balance	Average Rate (%)
Interest-earning assets		
Cash and cash equivalents – due from banks	$ 584,192	0.02
Due from the Central Bank and call loans to banks	12,009,891	0.77
Financial assets at fair value through profit or loss (excluding stocks and funds)	159,381	1.10
Securities bought under resale agreements	554,846	0.82
Receivables of credit cards	2,775,313	9.61
Discounts and loans (excluding overdue loans)	80,196,134	5.66
Available-for-sale financial assets (excluding stocks and funds)	12,992,984	1.38
Held-to-maturity financial assets	12,847,814	0.89
Other financial assets – pledged asset	29,338	0.68
Other assets	29,136	0.15
Interest-bearing liabilities		
Due to the Central Bank and other banks	3,653,430	1.04
Securities sold under repurchase agreements	6,564,024	0.82
Demand deposits	11,326,240	0.17
Savings – demand deposits	25,594,637	0.43
Time deposits	28,116,739	1.30
Savings – time deposits	52,724,619	1.38
Other financial liabilities (Note)	384,592	8.38

COSMOS BANK, TAIWAN

Notes to Financial Statements

	For the year ended December 31, 2011 Average Balance	Average Rate (%)
Interest-earning assets		
Cash and cash equivalents – due from banks	$ 673,148	0.09
Due from the Central Bank and call loans to banks	15,306,882	0.77
Financial assets at fair value through profit or loss (excluding stocks and funds)	297,922	2.60
Securities bought under resale agreements	236,498	0.67
Receivables of credit cards	2,898,618	9.99
Discounts and loans (excluding overdue loans)	70,913,924	6.38
Available-for-sale financial assets (excluding stocks and funds)	5,483,986	1.28
Held-maturity financial assets	19,515,753	0.89
Other financial assets – pledged asset	53,013	0.48
Other assets	30,290	0.10
Interest-bearing liabilities		
Due to the Central Bank and other banks	4,875,879	1.26
Securities sold under repurchase agreements	3,558,024	0.71
Demand deposits	11,537,337	0.12
Savings – demand deposits	25,913,448	0.39
Time deposits	37,544,516	1.19
Savings – time deposits	37,040,393	1.26
Other financial liabilities (Note)	977,104	8.74

Note: Based on an accounting rule, the Bank's Subordinated Unsecured Mandatory Convertible Bonds (MCB) have been split apart into the two components of liability and stockholders' equity, which resulted in a high average interest rate on the financial liabilities. The actual coupon rate was 4% for the years ended December 31, 2012 and 2011.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(ii) The Bank's significant foreign currency assets and liabilities as of December 31, 2012 and 2011, were as follows:

	December 31, 2012			December 31, 2011		
	Foreign currency amount	Currency rate	TWD amount	Foreign currency amount	Currency rate	TWD amount
Financial assets:						
Monetary items:						
USD	$ 313,442	29.1360	9,132,442	203,202	30.2900	6,154,997
HKD	20,008	3.7587	75,205	21,493	3.8987	83,795
GBP	428	46.9600	20,092	474	46.7496	22,143
AUD	5,279	30.2709	159,812	4,514	30.7474	138,796
JPY	172,480	0.3374	58,202	230,948	0.3908	90,252
CAD	665	29.2971	19,494	486	29.6932	14,426
NZD	1,925	23.9352	46,087	2,739	23.4081	64,120
RMB	2,183	4.6758	10,207	1,888	4.8086	9,080
EUR	4,008	38.6081	154,756	2,301	39.1983	79,602
ZAR	17,396	3.4282	59,638	-	-	-
Financial liabilities:						
Monetary items:						
USD	277,898	29.1360	8,096,842	165,335	30.2900	5,008,009
HKD	20,174	3.7587	75,828	21,023	3.8987	81,963
GBP	428	46.9600	20,097	491	46.7496	22,945
AUD	5,192	30.2709	157,151	4,531	30.7474	139,309
JPY	116,222	0.3374	39,218	86,181	0.3908	33,679
CAD	660	29.2971	19,345	497	29.6932	14,744
NZD	1,917	23.9352	45,874	2,747	23.4081	64,303
EUR	3,956	38.6081	152,736	4,031	39.1983	158,010
ZAR	17,469	3.4282	59,888	-	-	-

COSMOS BANK, TAIWAN

Notes to Financial Statements

(d) Asset quality, concentration of credit extensions, interest rate sensitivity, profitability, and maturity analysis of assets and liabilities

(i) Asset quality

Period	December 31, 2012					December 31, 2011				
Items	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate Banking – Secured	$ 119,445	13,082,330	0.91%	64,341	53.87%	3,305,957	15,795,209	20.93%	158,477	4.79%
Corporate Banking – Unsecured	98,662	12,757,334	0.77%	234,424	237.60%	2,498,368	13,100,573	19.07%	1,513,792	60.59%
Consumer Banking – Housing mortgage (Note 4)	47,486	20,927,376	0.23%	21,321	44.90%	32,144	18,558,371	0.17%	20,780	64.65%
Consumer Banking – Cash card	326,571	20,440,093	1.60%	751,697	230.18%	404,854	22,638,699	1.79%	1,042,092	257.40%
Consumer Banking – Small-scale credit loans (Note 5)	63,160	8,966,666	0.70%	146,695	232.26%	38,877	5,367,918	0.72%	87,123	224.10%
Consumer Banking – Other (Note 6) – Secured	14,071	10,129,254	0.14%	7,530	53.51%	22,349	6,909,766	0.32%	6,119	27.38%
Consumer Banking – Other (Note 6) – Unsecured	718	161,004	0.45%	338	47.16%	1,850	146,765	1.26%	27,017	1,460.59%
Total loans	670,113	86,464,057	0.78%	1,226,346	183.01%	6,304,399	82,517,301	7.64%	2,855,400	45.29%
	Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Credit cards	29,620	2,671,179	1.11%	104,035	351.23%	18,673	2,876,099	0.65%	109,866	588.38%
Factored accounts receivable without recourse (Note 7)	-	1,918	-	59	-	-	2,725	-	45	-
Amounts of executed contracts on negotiated debts not reported as nonperforming loans (Note 8)	766,095					1,020,210				
Amounts of executed contracts on negotiated debts not reported as nonperforming receivables (Note 8)	2,829					4,057				
Amounts of executed debt settlement program and rehabilitation program not reported as nonperforming loans (Note 9)	89,598					85,027				
Amounts of executed debt settlement program and rehabilitation program not reported as nonperforming receivables (Note 9)	4,945					5,510				

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming / Non-accrued Loans."
Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.
Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.
Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower or the spouse or the minor children of the borrower.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts, and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgages, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 0944000494), factored accounts receivable without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Note 8: The amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 9: The amounts of the executed debt settlement program and rehabilitation program not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940)

COSMOS BANK, TAIWAN

Notes to Financial Statements

(ii) Concentration of credit extensions

December 31, 2012

(in thousands of New Taiwan dollars)

Rank	Business Groups' Standard Industrial Classification and Symbol	Total Amount of Credit Endorsement or Other Transactions	Percentage of the Bank's Equity (%)
1	A Group-016811 Real Estate Activities for Sale and Rental with Own or Leased Property	$ 942,666	6.14
2	B Group-016420 Financial Holding	549,335	3.58
3	C Group-016899 Other Real Estate	500,231	3.26
4	D Group-016491 Financial Leasing	500,000	3.26
5	E Group-130100 Foreign Financial	437,040	2.85
6	F Group-012831 Electric Wire and Cable Manufactory	425,701	2.77
7	G Group-015510 Short-term Stay Service	415,000	2.70
8	H Group-015911 Films Manufacturing	380,684	2.48
9	I Group-016499 Other Financial Intermediation	374,259	2.44
10	J Group-019329 Other Entertainment and Recreational Service	346,954	2.26

COSMOS BANK, TAIWAN

Notes to Financial Statements

December 31, 2011

(in thousands of New Taiwan dollars)

Rank	Business Groups' Standard Industrial Classification and Symbol	Total Amount of Credit Endorsement or Other Transactions	Percentage of the Bank's Equity (%)
1	K Group-014841 Retail Sale of Automobiles in Specialized Stores	$ 2,523,748	20.46
2	L Group-013010 Motor Vehicles Manufacturing	1,766,357	14.32
3	M Group-016499 Other Financial Intermediation	1,356,994	11.00
4	A Group-016811 Real Estate Activities for Sale and Rental with Own or Leased Property	944,787	7.66
5	C Group-016899 Other Real Estate	595,879	4.83
6	D Group-016491 Financial Leasing	484,719	3.93
7	I Group-016499 Other Financial Intermediation	436,759	3.54
8	F Group-012831 Electric Wire and Cable Manufactory	435,323	3.53
9	H Group-015911 Films Manufacturing	411,718	3.34
10	G Group-015510 Short-term Stay Service	390,000	3.16

Note 1: Ranked by the total amount of credit, endorsement, or other transactions; list excludes government-owned or state-run enterprises. If the creditor is a group enterprise, the Bank would express the amount of credit by aggregating the total credit of this group enterprise, indicated with the symbol of the enterprise and industrial classification. The Bank would further identify the industry in which the group enterprise has the most exposure. The industrial classification refers to the Industrial Classification Standard of the Directorate General of Budget, Accounting and Statistics (DGBAS).

Note 2: Group enterprise refers to a group of corporate entities as defined by Article 6 of the "Supplementary Provisions to the Taiwan Stock Exchange Corporation's Rules for Review of Securities Listings."

Note 3: The total amount of credit, endorsement, or other transactions is the sum of various loans (including import and export negotiations, discounts, overdrafts, unsecured and secured short-term loans, margin loans receivable, unsecured and secured medium-term loans, unsecured and secured long-term loans, and overdue loans), exchange bills negotiated, factored accounts receivable without recourse, acceptances, and guarantees.

COSMOS BANK, TAIWAN

Notes to Financial Statements

(iii) Interest rate sensitivity information

1)

Interest Rate Sensitivity
December 31, 2012

(in thousands of New Taiwan dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest-rate-sensitive assets	$ 108,348,386	622,449	758,493	14,179,563	123,908,891
Interest-rate-sensitive liabilities	41,033,643	47,547,240	30,864,650	6,875,501	126,321,034
Interest rate sensitivity gap	67,314,743	(46,924,791)	(30,106,157)	7,304,062	(2,412,143)
Net worth					15,250,256
Ratio of interest-rate-sensitive assets to liabilities (%)					98.09
Ratio of interest rate sensitivity gap to net worth (%)					(15.82)

Interest Rate Sensitivity
December 31, 2011

(in thousands of New Taiwan dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest-rate-sensitive assets	$ 93,984,463	2,704,853	1,098,499	11,796,224	109,584,039
Interest-rate-sensitive liabilities	57,530,974	39,251,448	16,626,820	5,019,589	118,428,831
Interest rate sensitivity gap	36,453,489	(36,546,595)	(15,528,321)	6,776,635	(8,844,792)
Net worth					12,591,232
Ratio of interest-rate-sensitive assets to liabilities (%)					92.53
Ratio of interest rate sensitivity gap to net worth (%)					(70.25)

Note 1: The above amounts included only New Taiwan dollar amounts held by the head office and branches of the Bank (i.e., excluding foreign currency).

Note 2: Interest-rate-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues or costs affected by interest rate changes.

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

Note 4: Ratio of interest-rate-sensitive assets to liabilities = Interest-rate-sensitive assets/Interest-rate-sensitive liabilities (in New Taiwan dollars).

2)

Interest Rate Sensitivity
December 31, 2012

(in thousands of U.S. dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest-rate-sensitive assets	$ 246,436	2,816	-	47,204	296,456
Interest-rate-sensitive liabilities	65,390	143,600	67,208	-	276,198
Interest rate sensitivity gap	181,046	(140,784)	(67,208)	47,204	20,258
Net worth					3,103
Ratio of interest-rate-sensitive assets to liabilities (%)					107.33
Ratio of interest rate sensitivity gap to net worth (%)					652.85

Interest Rate Sensitivity
December 31, 2011

(in thousands of U.S. dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest-rate-sensitive assets	$ 179,932	1,330	1,028	5,057	187,347
Interest-rate-sensitive liabilities	21,472	107,920	32,727	-	162,119
Interest rate sensitivity gap	158,460	(106,590)	(31,699)	5,057	25,228
Net worth					72
Ratio of interest-rate-sensitive assets to liabilities (%)					115.56
Ratio of interest rate sensitivity gap to net worth (%)					35,038.89

Note 1: The above amounts included only U.S. dollar amounts held by the head office, domestic branches, OBU and overseas branches of the Bank, and excluded contingent assets and contingent liabilities.

Note 2: Interest-rate-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues or costs affected by interest rate changes.

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

Note 4: Ratio of interest-rate-sensitive assets to liabilities = Interest-rate-sensitive assets/Interest-rate-sensitive liabilities (in U.S. dollars).

COSMOS BANK, TAIWAN

Notes to Financial Statements

(iv) Profitability

(Unit: %)

Items		For the year ended December 31, 2012	For the year ended December 31, 2011
Return on total assets	Before income tax	2.52	(0.20)
	After income tax	1.97	(0.19)
Return on equity	Before income tax	26.84	(2.11)
	After income tax	20.90	(2.10)
Net income ratio		52.09	(13.80)

Note 1: Return on total assets = Income before (after) income tax/Average total assets.

Note 2: Return on equity = Income before (after) income tax/Average equity.

Note 3: Net income ratio = Income after income tax/Total net revenues.

Note 4: Income before (after) income tax was the income for the years ended December 31, 2012 and 2011.

Note 5: The above profitability ratios are expressed annually.

(v) Maturity analysis of assets and liabilities

1)

Maturity Analysis of Assets and Liabilities
December 31, 2012

(in thousands of New Taiwan dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 139,611,415	36,048,914	11,018,691	12,002,200	16,949,242	63,592,368
Main capital outflow on maturity	165,923,773	19,271,875	29,679,485	24,971,013	43,057,285	48,944,115
Gap	(26,312,358)	16,777,039	(18,660,794)	(12,968,813)	(26,108,043)	14,648,253

Maturity Analysis of Assets and Liabilities
December 31, 2011

(in thousands of New Taiwan dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 130,078,286	26,181,478	12,856,366	13,678,217	17,560,239	59,801,986
Main capital outflow on maturity	154,897,271	20,306,706	29,859,564	22,152,500	40,989,013	41,589,488
Gap	(24,818,985)	5,874,772	(17,003,198)	(8,474,283)	(23,428,774)	18,212,498

Note: The above amounts include only New Taiwan dollar amounts held by the head office and domestic branches of the Bank (i.e., excluding foreign currency).

2)

Maturity Analysis of Assets and Liabilities
December 31, 2012

(in thousands of U.S. dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 331,411	88,601	59,198	7,299	7,688	168,625
Main capital outflow on maturity	301,367	42,024	58,434	28,713	79,200	92,996
Gap	30,044	46,577	764	(21,414)	(71,512)	75,629

Maturity Analysis of Assets and Liabilities
December 31, 2011

(in thousands of U.S. dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 220,741	100,506	37,358	11,677	6,917	64,283
Main capital outflow on maturity	174,603	32,916	39,363	7,295	32,767	62,262
Gap	46,138	67,590	(2,005)	4,382	(25,850)	2,021

COSMOS BANK, TAIWAN

Notes to Financial Statements

Note 1: The above amounts include only U.S. dollar amounts held by the head office, domestic branches and OBU of the Bank.

Note 2: If overseas assets are above 10% of total assets of the Bank, it is necessary to provide supplementary disclosure information.

(vi) Capital adequacy ratio

(Unit: in thousands of New Taiwan dollars)

Items		Year	December 31, 2012	December 31, 2011
Eligible Capital	Tier 1 capital		$ 15,006,705	7,718,751
	Tier 2 capital		-	4,944,567
	Tier 3 capital		-	-
	Eligible capital		15,006,705	12,663,318
Risk-weighted Assets	Credit risk	Standardized approach	89,479,659	82,075,563
		Internal rating-based approach	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach	10,330,633	10,686,562
		Standardized approach/Alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	1,699,018	2,048,710
		Internal model approach	-	-
	Risk-weighted assets		101,509,310	94,810,835
Capital adequacy ratio			14.78	13.36
Ratio of tier 1 capital to risk-weighted assets (%)			14.78	8.14
Ratio of tier 2 capital to risk-weighted assets (%)			-	5.22
Ratio of tier 3 capital to risk-weighted assets (%)			-	-
Ratio of common stock to total assets (%)			9.88	11.60
Leverage (%)			10.26	6.14

Note 1: Eligible capital and risk-weighted assets are calculated under the "Regulations Governing the Capital Adequacy Ratio of Banks" and the "Explanation of Methods for Calculating the Eligible Capital and Risk-Weighted Assets of Banks."

Note 2: Formulas used were as follows:

1) Eligible capital = Tier 1 capital + Tier 2 capital + Tier 3 capital.

2) Risk-weighted assets = Risk-weighted assets for credit risk + Capital requirements for operational risk and market risk x 12.5.

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

4) Ratio of Tier 1 capital to risk-weighted assets = Tier 1 capital ÷ Risk-weighted assets.

5) Ratio of Tier 2 capital to risk-weighted assets = Tier 2 capital ÷ Risk-weighted assets.

6) Ratio of Tier 3 capital to risk-weighted assets = Tier 3 capital ÷ Risk-weighted assets.

7) Ratio of common stock to total assets = Common stock ÷ Total assets.

8) Leverage = Tier 1 capital ÷ Adjusted average assets [Average Assets – Deduction from Tier 1 capital ("Goodwill," "Deferred loss on sale of nonperforming loans" and the amount that should be deducted from Tier 1 capital according to the "Explanation of Methods for Calculating the Eligible Capital and Risk-Weighted Assets of Banks")].

Note 3: Under the regulation on capital adequacy ratios, the Bank had to use the standardized approach to calculate its credit risks and had to reduce its Tier 1 capital when its operating reserve and allowance for possible losses became insufficient. The Bank calculated its capital adequacy ratios by referring to "The Expected Loss Interpretation of the Banking Bureau," previous loss experience, property risk, and risk-related developments and also reported them to the supervisors from the Banking Bureau.

(e) According to Jin Guan Zheng Sheng No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Bank should disclose the following information on its adoption of the "International Financial Reporting Standards (IFRSs)".

(i) On May 14, 2009, the FSC announced the "Framework for the Adoption of International Financial Reporting Standards by the Companies in the ROC." In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange (TWSE) or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the "Guidelines Governing the Preparation of Financial Reports", the "International Financial Reporting Standards" and the "International Accounting Standards" approved by the FSC, and the revised "Regulations Governing the Preparation of Financial Reports by Public Banks". To comply with this framework, the Bank has set up a project team and made a plan to adopt IFRSs. The main contents of the plan and status of execution were as follows:

COSMOS BANK, TAIWAN

Notes to Financial Statements

Contents of Plan	Responsible Department	Status of Execution
1) Set up a project team	Project Team	Completed
2) Make an initial plan	Accounting	Completed
3) Conduct employee training	Accounting	Completed
4) Identify the differences between the existing accounting policies and the accounting policies to be adopted under IFRSs	Project Team	Completed
5) Identify the consolidated financial statements to be adopted under IFRSs	Accounting	Completed
6) Assess the applicability of the IFRS 1 – "First-time Adoption of International Financial Reporting Standards".	Project Team	Completed
7) Assess the adjustments of the related information technology system	Project Team	Completed
8) Assess the adjustments of internal control	Project Team	Completed
9) Finalize the accounting policies adopted under IFRSs	Project Team	Completed
10) Finalize the exemptions and selections under IFRS 1 – "First-time Adoption of International Financial Reporting Standards"	Project Team	Completed
11) Gather information to prepare the opening balance sheet as of January 1, 2012, in conformity with IFRSs	Accounting	Completed
12) Gather information to prepare the comparative financial information in conformity with IFRSs	Project Team	In progress
13 Finalize the adjustments of internal control (including financial report process and information system)	Project Team	Completed

(ii) The preliminary evaluation of the major differences between the current accounting policies and IFRSs accounting policies is as follows:

1) Adjustment of the balance sheet on January 1, 2012

ROC GAAP		IFRSs conversion's impact		IFRSs		
Item	Amount	Difference in recognition and measurement	Difference in presentation	Amount	Item	Note
Assets					**Assets**	
Cash and cash equivalents	$ 2,586,617	-	-	2,586,617	Cash and cash equivalents	
Due from the Central Bank and call loans to banks	8,166,189	-	-	8,166,189	Due from the Central Bank and call loans to banks	
Financial assets at fair value through profit or loss, net	293,153	-	-	293,153	Financial assets at fair value through profit or loss	
Available-for-sale financial assets, net	9,164,686	-	-	9,164,686	Available-for-sale financial asset, net	
Receivables, net	4,115,560	-	(94,215)	4,021,345	Receivables, net	(5)A
	-	-	94,215	94,215	Current income tax assets	(5)A
Discounts and loans, net	79,661,901	-	-	79,661,901	Discounts and loans, net	
Held-to-maturity financial assets, net	19,850,000	-	-	19,850,000	Held-to-maturity financial assets, net	
Equity investments under the equity method, net	47,494	-	-	47,494	Equity investments under the equity method, net	
Other financial assets, net	839,684	-	-	839,684	Other financial assets, net	
Fixed assets, net	6,083,828	-	420,719	6,504,547	Property and equipment, net	(5)B
	-	-	15,879	15,879	Investment property, net	(5)B
Intangible assets	123,597	-	-	123,597	Intangible assets	
	-	-	7,347,983	7,347,983	Deferred income tax assets	(5)A
Other assets, net	9,043,999	188,458	(7,778,457)	1,454,000	Other assets, net	(4)A, (5)A and B
Total assets	**$ 139,976,708**	**188,458**	**6,124**	**140,171,290**	**Total assets**	
Liabilities					**Liabilities**	
Due to the Central Bank and other banks	$ 4,124,277	-	-	4,124,277	Due to the Central Bank and other banks	
Financial liabilities at fair value through profit or loss, net	1,310	-	-	1,310	Financial liabilities at fair value through profit or loss	
Securities sold under repurchase agreements	7,170,249	-	-	7,170,249	Securities sold under repurchase agreements	
Payables	2,151,456	-	(19,877)	2,131,579	Payables	(5)A
Deposits and remittances	112,944,159	-	-	112,944,159	Deposits and remittances	
Accrued pension liabilities	188,228	-	(188,228)	-		(5)C
Other financial liabilities	616,051	-	-	616,051	Other financial liabilities	
	-	-	199,532	199,532	Provision	(5)C
	-	32,038	26,001	58,039	Deferred income tax liabilities	(4)A and (5)A
Other liabilities	446,594	-	(11,304)	435,290	Other liabilities	(5)C
Total liabilities	127,642,324	32,038	6,124	127,680,486	**Total liabilities**	
Capital stock:					Capital stock:	
Common stock	16,234,639	-	-	16,234,639	Common stock	
Capital surplus:					Capital surplus:	
Others	13,009,038	-	-	13,009,038	Others	
Retained earnings:					Retained earnings:	
Special reserve	8,467	-	-	8,467	Special reserve	
Accumulated deficit	(16,942,000)	156,420	-	(16,785,580)	Accumulated deficit	(4)A
Others					Others	
Unrealized gain on financial instruments	24,240	-	-	24,240	Unrealized gain on financial instruments	
Total stockholder's equity	12,334,384	156,420	-	12,490,804	**Total equity**	
Total liabilities and stockholders' equity	**$ 139,976,708**	**188,458**	**6,124**	**140,171,290**	**Total liabilties and equity**	

COSMOS BANK, TAIWAN

Notes to Financial Statements

2) Adjustment of the balance sheet on December 31, 2012

ROC GAAP		IFRSs conversion's impact		IFRSs		
Item	Amount	Difference in recognition and measurement	Difference in presentation	Amount	Item	Note
Assets					**Assets**	
Cash and cash equivalents	$ 2,482,322	-	-	2,482,322	Cash and cash equivalents	
Due from the Central Bank and call loans to banks	13,907,049	-	-	13,907,049	Due from the Central Bank and call loans to banks	
Financial assets at fair value through profit or loss, net	67,641	-	-	67,641	Financial assets at fair value through profit or loss	
Available-for-sale financial asset, net	17,088,847	-	-	17,088,847	Available-for-sale financial asset, net	
Receivables, net	5,530,686	-	(89,343)	5,441,343	Receivables, net	(5)A
	-	-	89,343	89,343	Current income tax assets	(5)A
Discounts and loans, net	85,237,711	-	-	85,237,711	Discounts and loans, net	
Held-to-maturity financial assets, net	15,600,000	-	-	15,600,000	Held-to-maturity financial assets, net	
Equity investments under the equity method, net	62,007	-	-	62,007	Equity investments under the equity method, net	
Other financial assets, net	801,835	-	-	801,835	Other financial assets, net	
Fixed assets, net	6,076,773	-	401,385	6,478,158	Property and equipment, net	(5)B
	-	-	20,058	20,058	Investment property, net	(5)B
Intangible assets	150,271	-	-	150,271	Intangible assets	
	-	-	6,531,306	6,531,306	Deferred income tax assets	(5)A
Other assets, net	7,367,655	175,112	(6,940,575)	602,192	Other assets, net	(4)A, (5)A and B
Total assets	$ 154,372,797	175,112	12,174	154,560,083	**Total assets**	
Liabilities					**Liabilities**	
Due to the Central Bank and other banks	$ 1,306,850	-	-	1,306,850	Due to the Central Bank and other banks	
Financial liabilities at fair value through profit or loss, net	29	-	-	29	Financial liabilities at fair value through profit or loss	
Securities sold under repurchase agreements	8,212,708	-	-	8,212,708	Securities sold under repurchase agreements	
Payables	2,367,409	-	(19,877)	2,347,532	Payables	(5)A
Deposits and remittances	126,509,252	-	-	126,509,252	Deposits and remittances	
Accrued pension liabilities	149,910	-	(149,910)	-		(5)C
Other financial liabilities	14,043	-	-	14,043	Other financial liabilities	
	-	-	157,125	157,125	Provision	(5)C
	-	29,769	32,051	61,820	Deferred income tax liabilities	(4)A and (5)A
Other liabilities	459,659	-	(7,215)	452,444	Other liabilities	(5)C
Total liabilities	139,019,860	29,769	12,174	139,061,803	**Total liabilities**	
Capital stock:					Capital stock:	
Common stock	15,255,976	-	-	15,255,976	Common stock	
Capital surplus:					Capital surplus:	
Share premium	618,220			618,220	Share premium	
Others	118,511	-	-	118,511	Others	
Retained earnings:					Retained earnings:	
Accumulated deficit	(759,269)	145,343	-	(613,926)	Accumulated deficit	(4)A
Others					Others	
Unrealized gain on financial instruments	119,499	-	-	119,499	Unrealized gain on financial instruments	(5)F
Total stockholders' equity	15,352,937	145,343	-	15,498,280	**Total equity**	
Total liabilities and stockholders' equity	$ 154,372,797	175,112	12,174	154,560,830	**Total liabilities and equity**	

3) Reconciliation report for comprehensive income statement for year ended December 31, 2012

ROC GAAP		IFRSs conversion's impact		IFRSs		
Item	Amount	Difference in recognition and measurement	Difference in presentation	Amount	Item	Note
Interest revenue	$ 5,607,803	-	(1,753)	5,606,050	Interest revenue	(5)E
Less: interest expense	(1,348,191)	-	22,444	(1,325,747)	Less: interest expense	(5)D
Net interest	4,259,612	-	20,691	4,280,303	**Net interest**	
Net revenue (losses) other than interest					Net revenue (losses) other than interest	
Service fee income, net	1,105,019	(12,628)	-	1,092,391	Service fee income, net	(4)B
Losses on financial assets and liabilities at fair value through profit or loss	(15,372)	12,628	1,753	(991)	Gains and losses on financial assets and liabilities at fair value through profit or loss	(4)B, and (5)E
Realized gain on the sale of available-for-sale financial assets	53,820	-	-	53,820	Realized gain on the sale of available-for-sale financial assets	
Income from equity investments under the equity method	43,628	-	-	43,628	Gain on investment in associates and joint ventures under the equity method	
Foreign exchange losses, net	(14,367)	-	-	(14,367)	Foreign exchange losses, net	
Other non-interest losses, net	121,258	-	2,415	123,673	Other non-interest losses, net	(5)B
Total net revenues	5,553,598	-	24,859	5,578,457	**Total net revenues**	
Reversal of bad debt expenses	1,977,556	-	-	1,977,556	Reversal of bad debt expenses and provision for guarantee	
Personnel	(2,046,864)	(5,423)	(22,444)	(2,074,731)	Employee benefit	(4)A and (5)D
Depreciation and amortization	(203,944)	-	(2,415)	(206,359)	Depreciation and amortization	(5)B
Others	(1,564,579)	-	-	(1,564,579)	Others	
Net income before income tax - continuing operations	3,715,767	(5,423)	-	3,710,344	Net income before income tax - continuing operations	
Income tax (expense) benefit	(822,707)	922	-	(821,785)	Income tax (expense) benefit	(4)A
Net income after income tax - continuing operations	2,893,060	(4,501)	-	2,888,559	Net income after income tax - continuing operations	
Net income	2,893,060	(4,501)	-	2,888,559	**Net income**	
					Other comprehensive income:	
		-	95,259	95,259	Unrealized gains on financial instruments	(5)F
		(7,923)	-	(7,923)	Actuarial loss on defined benefit plans	
		1,347	-	1,347	Tax gains under other comprehensive income	
		$ (11,077)	95,259	2,977,242	**Total comprehensive Income**	

COSMOS BANK, TAIWAN

Notes to Financial Statements

4) Differences in recognition and measurement are described as follows:

A. Employee benefit

In accordance with IFRS 1 as agreed by the FSC, the Bank elected to use exemptions and recognized all cumulative actuarial gains. On January 1 and December 31, 2012, the effect of this adjustment was as follows: for other assets, an increase of $188,458 and $175,112, respectively; for deferred income tax liabilities, an increase of $32,038 and $29,769, respectively; for retained earnings, an increase of $156,420 and the $145,343, respectively. Under other comprehensive income in the comprehensive income statement for the year 2012, the actuarial loss on the defined benefit plan and the related income tax benefits were $7,923 and $1,347 respectively and were both transferred to retained earnings. Also, for the years ended, employee benefits expense on the comprehensive income statement increased by $5,423, and caused income tax to decrease by $922.

B. Service fees on financial assets at fair value through profit or loss

In accordance with IAS 39 as agreed by the FSC, the transaction costs of financial assets at fair value through profit or loss should be expensed. For the year ended December 31, 2012, this adjustment decreased service fees on the comprehensive income by $12,628, and increased financial assets and liabilities at fair value through profit or loss by $12,628.

5) Differences in presentation are described as follows:

A. Income tax

In accordance with IAS as agreed by the FSC, the Bank's current income tax assets and deferred income tax assets should be in listed on the balance sheet individually. On January 1 and December 31, 2012, the effect of this adjustment on related accounts was as follows: for current income tax assets, an increase of $94,215 and $89,343, respectively; for receivables, a decrease of $94,215 and $89,343, respectively; for deferred income tax assets, an increase of $7,341,859 and $6,519,132, respectively; and for other assets, a decrease of $7,341,859 and $6,519,132, respectively. In addition, in accordance with SIC 21 as agreed by the FSC, the Bank reclassified land revaluation increment tax payable, which is a taxable temporary difference, under deferred tax liabilities. On January 1 and December 31, 2012, the adjustment decreased payables by $19,877, and increased deferred income tax liabilities by $19,877. Also, in accordance with IAS 12 as agreed by the FSC and in consideration of income tax setoff rights, the Bank's deferred tax asset liabilities previously expressed in net deferred tax assets changed to being expressed in total amount. On January 1 and December 31, 2012, the deferred income tax assets and deferred income tax liabilities increased by $6,124 and $12,174, respectively.

B. Investment property

In accordance with IAS 40 as agreed by the FSC, the Bank evaluates part of land and building held for the purpose of earned rent or capital gain, and any mismatch in investment property will be reclassified under property and equipment. On January 1 and December 31, 2012, the effect of this adjustment on related accounts was as follows: for other assets, a decrease of $436,598 and $421,443, respectively; for property and equipment, an increase of $420,719 and $401,385, respectively; and for investment property, an increase of $15,879 and $20,058, respectively. For the year ended December 31, 2012, depreciation on rental assets amounting to $2,415 was reclassified from net revenues other than interest to operating expenses.

C. Provision

In accordance with IAS 37 as agreed by the FSC, reserve for guarantee liabilities, reserve for contingency loss, provision for outstanding claims, and reserve for severance pension liabilities are recovered in the provision account. On January 1 and December 31, 2012, the effect of this adjustment on related accounts was as follows: for accrued pension liabilities, a decrease of $188,228 and $149,910 respectively; for other liabilities, a decrease of $11,304 and $7,215, respectively; and for provision, an increase of $199,532 and $157,125, respectively.

D. Employee benefit

For the deposits with favorable rates of current employees, it is an additional benefit which the Bank offers its employees. The amount by which the interest rate exceeds the market rate shall be recognized as employee benefit expense in the comprehensive income statement. For the year ended December 31, 2012, this adjustment increased employee benefit expenses by $22,444 and decreased interest expenses by $22,444.

E. Gains and losses on financial assets and liabilities at fair value through profit or loss

Following the Regulations Governing the Preparation of Financial Reports by Publicly Held Banks, effective from year 2013, the Bank must reclassify under gains and losses on financial assets or liabilities measured at fair value through profit or loss the interest income produced by such financial assets or liabilities that was originally recognized as interest income. On December 31, 2012, the effect of this adjustment on related accounts was as follows: for interest income, a decrease of $1,753; for gains and losses on financial assets or liabilities measured at fair value through profit or loss, an increase of $1,753.

COSMOS BANK, TAIWAN

Notes to Financial Statements

F. Unrealized gain or loss on available-for-sale financial assets

In accordance with IAS 1 as agreed by the FSC, unrealized gain on available-for-sale financial assets amounting to $95,259 was reclassified as other comprehensive income for the year ended December 31, 2012.

(iii) Following IFRS 1 – "First-time Adoption of International Financial Reporting Standards", the optional exemptions applied by the Bank are as follows:

1) The Bank elects not to apply IFRS 3 – "Business Combinations" retrospectively to past business combinations before January 1, 2012; therefore, the Bank still applies R.O.C. generally accepted accounting principles.

2) The Bank elects to recognize all cumulative actuarial gains at the date of transition to IFRSs and transfer them to retained earnings.

(iv) The Bank has prepared the above assessments in compliance with (a) the 2010 version of the IFRSs agreed by the FSC and (b) the Regnlations Governing the Preparation of Financial Reports by Publicly Held Banks amended and issued by the FSC on December 26, 2011. These assessments may change as the International Accounting Statements Board (IASB) may continue to issue or amend the standards, and as the FSC may issue new rules governing the adoption of IFRSs. The illustration of the abovementioned IFRSs adoption differences is evaluated preliminarily under the current environment and situation, and the differences may change subsequently according to changes in the future environment and situation.

11 Disclosures Required

(a) Related information on significant transactions:

(i) Cumulative purchase or sale of the same investee's capital stock up to $300,000 or 10% of paid-in capital: None

(ii) Acquisition of real estate up to $300,000 or 10% of paid-in capital: None

(iii) Disposal of real estate up to $300,000 or 10% of paid-in capital: None

(iv) Discount on commission fees for transaction with related parties up to $5,000: None

(v) Receivables from related parties up to $300,000 or 10% of paid-in capital: None

(vi) Transaction information on NPL disposal:

1) Summary of transaction on NPL disposal

(In Thousands of New Taiwan Dollars)

Transaction Date	Counter-party	Loans	Book Value	Sell price	Gain on disposal	Additional terms and conditions	Relationship with counter-party
101.06.21.	YEE TAI UNION ENTERPRISE COMPANY	Corporate Loans	- Transfer to bad debt	303,990	303,990	None	Non related party transaction

2) Transaction information on individual NPL disposal up to $1,000,000 (excluding transaction to related parties) disclosed in financial statement：None

(vii) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information: None

(viii) Other significant transactions that may have substantial influence upon the decisions made by financial statement users: Please refer to note 5.

(b) Related information on investee companies:

(i) Names and locations of, and relevant information on, investees upon which the Bank exercises significant influence:

(In Thousands of New Taiwan Dollars/Thousands of shares)

Names of investee company	Address	Main business scope	Shareholding ratio	Carrying value	Investment gain (loss) recognized	Aggregate shareholding of the Bank and its subsidiaries: No. of shares	No. of pro-forma shares	Total: Number of shares	Total: Shareholding ratio	Remark
Financial related										
Taipei Foreign Exchange Inc.	Taipei City	Foreign Exchange Trading、Financial Derivatives Trading	0.40 %	800	-	80	-	80	0.40%	-
Taiwan Futures Exchange	Taipei City	Futures exchange and settlement	0.51 %	10,250	-	1,428	-	1,428	0.51%	-
Financial Information Service Co., Ltd.	Taipei City	Telecommunication service; Information System service	1.23 %	49,120	-	5,526	-	5,526	1.23 %	-
Taiwan Asset Management Co., Ltd.	Taipei City	Evaluating, auctioning and managing financial institutions' loans	0.57%	100,000	-	10,000	-	10,000	0.57 %	-
Reliance Securities Investment Trust Co., Ltd.	Taipei City	Issue beneficiary certificates; raise investment funds	12.31%	46,752	-	3,840	-	3,840	12.31 %	-
Sunlight Asset Management Co., LTD.	Taipei City	Purchasing for financial institutions' loans	5.74%	3,445	-	344	-	344	5.74 %	-
Cosmos Insurance Brokers Co., LTD	Taipei City	Life insurance agency	100.00%	62,007	43,628	-	-	-	100.00 %	-

COSMOS BANK, TAIWAN

Notes to Financial Statements

Names of investee company	Address	Main business scope	Shareholding ratio	Carrying value	Investment gain (loss) recognized	Aggregate shareholding of the Bank and its subsidiaries: No. of shares	No. of pro-forma shares	Total: Number of shares	Total: Shareholding ratio	Remark
Non-financial related										
Euroc II Venture Capital Corp.	Taipei City	Venture capital corporation	7.50%	33,263	-	6,000	-	6,000	7.50 %	-
Cosmos Construction Management Corporation	Taipei City	Valuation on real estate、contract evaluation	9.39%	-	-	6,991	-	6,991	9.39 %	
Lieu-An Service Co.	Taipei City	ATM Cash Cartridge replacement and service provision	5.00%	1,250	-	125	-	125	5.00 %	-
Euroc III Venture Capital Corp.	Taipei City	Venture capital corporation	5.00%	18,357	-	3,000	-	3,000	5.00 %	-
CDIB & Partners Investment Holding Co.	Taipei City	General investment corporation	4.95%	500,000	-	54,000	-	54,000	4.95 %	-

Note 1: Shares or pro- forma shares held by the Bank, directors, supervisors, president, vice president and affiliates in accordance with the Company Law have been included.

Note 2: (1) Proforma shares are the shares obtained from under the assumption that securities with right or derivative instrument contracts (have not been converted into stocks) can be converted into shares of investee company under Article 74 of "Company Act" for investment purposes.

(2) Above mentioned "Securities with Right" is defined in Paragraph 1 of Article 11 "Securities and Exchange Law Enforcement Rules" for example, convertible corporate bonds and warrant certificates.

(3) Above mentioned "Derivative Instrument Contract" conformed with the definition of derivative instrument of SFAS No. 34 "Financial Instruments: Recognition and Measurement" for example, stock option.

(ii) Loans to other businesses or individuals: None

(iii) Endorsements and guarantees for others: None

(iv) Marketable securities held as of December 31, 2012: None

(v) Cumulative purchases or sales of the same investee's capital stock up to $300,000 or 10% of paid-in capital: None

(vi) Acquisition of real estate up to $300,000 or 10% of paid-in capital: None

(vii) Disposal of real estate up to $300,000 or 10% of paid-in capital: None

(viii) Discount on commission fees for transaction with related parties up to $5,000: None

(ix) Receivables from related parties up to $300,000 or 10% of paid-in capital: None

(x) Financial derivative transactions: None

(xi) Information on NPL disposal transaction: None

(xii) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information: None

(xiii) Other significant transactions that may have substantial influence upon the decisions made by users of financial statement: None

12 Operating Segment Financial Information – Reporting Department

(a) Segment Financial Information

		For the year ended December 31, 2012					
		Consumer banking department	Corporate banking department	Branch banking department	Treasury department	Other departments	Total
Revenues							
Net interest revenues	$	3,235,948	438,716	793,013	80,969	(289,034)	4,259,612
Net revenues (losses) other than interest		364,034	56,819	768,236	42,012	62,885	1,293,986
Inter-department revenue (expense)		(24,490)	62,405	(33,352)	-	(4,563)	-
Total net revenues		3,575,492	557,940	1,527,897	122,981	(230,712)	5,553,598
Expenses							
Operating expenses		(1,202,198)	(367,481)	(1,359,524)	(58,773)	(827,411)	(3,815,387)
Provision for loan losses		765,800	322,267	69,919	-	819,570	1,977,556
Total expenses		(436,398)	(45,214)	(1,289,605)	(58,773)	(7,841)	(1,837,831)
Net gains (losses) before loss on the sale of nonperforming loans		3,139,094	512,726	238,292	64,208	(238,553)	3,715,767
Distribution from head office		(451,458)	(133,757)	(484,425)	(22,185)	1,091,825	-
Net gains (losses) before income tax	$	2,687,636	378,969	(246,133)	42,023	853,272	3,715,767

		December 31, 2012					
		Consumer banking department	Corporate banking department	Branch banking department	Treasury department	Other departments	Total
Gross assets	$	32,341,638	23,984,474	34,009,884	48,060,413	15,976,388	154,372,797

COSMOS BANK, TAIWAN

Notes to Financial Statements

		For the year ended December 31, 2011					
		Consumer banking department	Corporate banking department	Branch banking department	Treasury department	Other departments	Total
Revenues							
Net interest revenues	$	3,142,427	505,932	683,523	110,115	(388,137)	4,053,860
Net revenues (losses) other than interest		336,585	52,798	674,829	(19,269)	165,475	1,210,418
Inter-department revenue (expense)		(19,035)	46,822	(3,591)	-	(24,196)	-
Total net revenues		3,459,977	605,552	1,354,761	90,846	(246,858)	5,264,278
Expenses							
Operating expenses		(1,234,651)	(337,893)	(1,319,760)	(48,629)	(777,501)	(3,718,434)
Provision for loan losses		1,661,433	19,254	(90,137)	-	(30,410)	1,560,140
Total expenses		426,782	(318,639)	(1,409,897)	(48,629)	(807,911)	(2,158,294)
Net gains (losses) before loss on the sale of nonperforming loans		3,886,759	286,913	(55,136)	42,217	(1,054,769)	3,105,984
Distribution from head office		(488,063)	(136,225)	(420,795)	(33,642)	1,078,725	-
Loss on the sale of nonperforming loans		(2,994,180)	(373,541)	(508)	-	-	(3,368,229)
Net gains (losses) before income tax	$	404,516	(222,853)	(476,439)	8,575	23,956	(262,245)

		December 31, 2011					
		Consumer banking department	Corporate banking department	Branch banking department	Treasury department	Other departments	Total
Gross assets	$	31,200,263	27,057,184	30,900,771	38,537,614	12,280,876	139,976,708

(i) The primary business of the abovementioned reporting departments was as follows:

1) Consumer banking department: The department mainly provides loans for consumers or small enterprises, including cash card, credit card, personal loan, small enterprises loan, etc.

2) Corporate banking department: The department mainly provides financial services for large-scale enterprises and small and medium enterprises.

3) Branch banking department: The department mainly provides the services of deposits and remittances, wealth management, and mortgage loans for general customers (including promoting and selling products for the consumer and corporate banking departments).

4) Treasury department: The department mainly manages assets, liabilities, and foreign exchange, and engages in transactions involving bonds, bills, securities, or other financial instruments.

5) Other departments: This summarizes other departments that are not reported individually such as the financial institution department and the management department of the head office.

(ii) The Bank does not distribute deferred income tax assets, income tax benefits (expenses), and extraordinary gains or losses to the reported departments. The profits and losses of operating departments have been measured by net profits or losses before income taxes. The reported amount was consistent with the report used by the chief operating decision maker, and the amount is used as a basis to assess performance.

(iii) The accounting policy of the operating departments is as follows:

1) The accounting policy of the operating departments is the same as in note 2.

2) The inter-department revenue or expense came from the transactions among the internal departments, and the transaction prices were calculated in consideration of the internal transfer price and the standard cost of the seller department.

3) Distribution from the head office was allocated to reporting departments based on the revenue of each department or the number of each department's employees. The amounts of distribution from the head office were as follows:

A. The interest expense of the MCB.

B. The difference after summing up internal transfer revenue and expenses.

C. The operating expenses of the head office.

D. The other revenue and cost which cannot be attributed to any operating department.

(b) Geographical information: The Bank operates mainly in Taiwan region, thus, no geographic information will be disclosed.

(c) Major consumer information: There is no transaction with individual consumer that constitutes 10% of the Bank's revenues.

Contact Details of Head Offices and Branches

Office / Branch	Phone Number	Address
Head Office	886-2-2701-1777	No.364, Sec. 1, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan
Head Office-Taipei 101	886-2-2176-9068	Rm. A, 21F., No.7, Sec. 5, Xinyi Rd., Xinyi Dist., Taipei City 110, Taiwan
Head Office-Chungho	886-2-8023-9077	2F. & 3F. & 5F., No.188, Jingping Rd., Zhonghe Dist., New Taipei City 235, Taiwan
Head Office-Treasury	886-2-2173-1958	5F., No.224, Sec. 3, Nanjing E. Rd., Zhongshan Dist., Taipei City 104, Taiwan
Head Office-Banking Business Dept.	886-2-2701-1777	No.364, Sec. 1, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan
Head Office-Trust Operation	886-2-2232-2499	2F., No.200, Jingping Rd., Zhonghe Dist., New Taipei City 235, Taiwan
Head Office-International Banking	886-2-8023-9077	2F., No.200, Jingping Rd., Zhonghe Dist., New Taipei City 235, Taiwan
Chiencheng Branch	886-2-2555-7777	No.70, Sec. 1, Chengde Rd., Datong Dist., Taipei City 103, Taiwan
Chunghsiao Branch	886-2-2778-1277	No.270, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 106, Taiwan
Sanchung Branch	886-2-2981-2233	No.192, Sec. 3, Chongxin Rd., Sanchong Dist., New Taipei City 241, Taiwan
Taichung Branch	886-4-2328-3331	No.160-1, Sec. 1, Taichung Port Rd., West Dist., Taichung City 403, Taiwan
Tainan Branch	886-6-226-8777	No.351, Sec. 2, Ximen Rd., West Central Dist., Tainan City 700, Taiwan
Kaohsiung Branch	886-7-336-7977	No.80, Siwei 3rd Rd., Lingya Dist., Kaohsiung City 802, Taiwan
Chengtung Branch	886-2-2778-8777	No.224, Sec. 3, Nanjing E. Rd., Zhongshan Dist., Taipei City 104, Taiwan
East Taipei Branch	886-2-2570-5777	No.160, Sec. 4, Nanjing E. Rd., Songshan Dist., Taipei City 105, Taiwan
Panchiao Branch	886-2-2259-7767	No.15, Sec. 3, Minsheng Rd., Banqiao Dist., New Taipei City 220, Taiwan
Taoyuan Branch	886-3-339-7779	No.80, Nanhua St., Taoyuan City, Taoyuan County 330, Taiwan
Chungli Branch	886-3-427-2777	No.13-1, Zhongyang E. Rd., Zhongli City, Taoyuan County 320, Taiwan
North Kaohsiung Branch	886-7-346-3677	No.878, Minzu 1st Rd., Sanmin Dist., Kaohsiung City 807, Taiwan
Hsinchuang Branch	886-2-2277-6377	No.331, Siyuan Rd., Xinzhuang Dist., New Taipei City 242, Taiwan
Chungcheng Branch	886-7-241-1777	No.151, Zhongzheng 4th Rd., Qianjin Dist., Kaohsiung City 801, Taiwan
Yuanlin Branch	886-4-833-9777	No.266, Juguang Rd., Yuanlin Township, Changhua County 510, Taiwan
Offshore Banking Unit	886-2-8023-9077	2F., No.200, Jingping Rd., Zhonghe Dist., New Taipei City 235, Taiwan
Sungchiang Branch	886-2-2517-3777	No.137, Songjiang Rd., Zhongshan Dist., Taipei City 104, Taiwan
Luchou Branch	886-2-2289-8877	No.401, Jixian Rd., Luzhou Dist., New Taipei City 247, Taiwan
Fengshan Branch	886-7-741-9777	No.165-3, Bo'ai Rd., Fengshan Dist., Kaohsiung City 830, Taiwan

Office / Branch	Phone Number	Address
Hsinchu Branch	886-3-525-5577	No.645, Xida Rd., East Dist., Hsinchu City 300, Taiwan
Sungshan Branch	886-2-2761-6688	No.132, Songshan Rd., Xinyi Dist., Taipei City 110, Taiwan
Tucheng Branch	886-2-2260-5588	No.123, Sec. 3, Jincheng Rd., Tucheng Dist., New Taipei City 236, Taiwan
Chungho Branch	886-2-8668-5566	No.200, Jingping Rd., Zhonghe Dist., New Taipei City 235, Taiwan
Chienkang Branch	886-6-225-6131	No.167, Sec. 2, Zhongyi Rd., West Central Dist., Tainan City 700, Taiwan
Keelung Branch	886-2-2433-6566	No.193, Maijin Rd., Anle Dist., Keelung City 204, Taiwan
Touliu Branch	886-5-533-1566	No.80, Xiping Rd., Douliu City, Yunlin County 640, Taiwan
Tungmen Branch	886-6-225-6141	No.26, Sec. 1, Fuqian Rd., West Central Dist., Tainan City 700, Taiwan
Peimen Branch	886-6-236-4401	No.133, Kaiyuan Rd., North Dist., Tainan City 704, Taiwan
Pingtung Branch	886-8-738-5678	No.451, Guangdong Rd., Pingtung City, Pingtung County 900, Taiwan
Linsen Mini Branch	886-6-237-6391	No.184, Sec. 2, Linsen Rd., East Dist., Tainan City 701, Taiwan
Kueijen Mini Branch	886-6-330-8777	No.23, Sec. 1, Zhongzheng S. Rd., Guiren Dist., Tainan City 711, Taiwan
Haitung Branch	886-6-250-2183	No.129, Sec. 1, Haidian Rd., Annan Dist., Tainan City 709, Taiwan
Yungkang Branch	886-6-272-7757	No.21, Sec. 2, Yongda Rd., Yongkang Dist., Tainan City 710, Taiwan
Tienmu Branch	886-2-8866-1117	No.246, Sec. 6, Zhongshan N. Rd., Shilin Dist., Taipei City 111, Taiwan
Hsintien Branch	886-2-2918-1199	No.202, Sec. 3, Beixin Rd., Xindian Dist., New Taipei City 231, Taiwan
Taan Branch	886-2-3322-3677	No.8, Sec. 2, Xinsheng S. Rd., Da'an Dist., Taipei City 106, Taiwan
Miaoli Branch	886-37-265-725	No.81, Zhongzheng Rd., Miaoli City, Miaoli County 360, Taiwan
Pateh Branch	886-2-3765-1111	No.88, Sec. 4, Bade Rd., Songshan Dist., Taipei City 105, Taiwan
Hualien Branch	886-3-835-2299	No.560, Zhongzheng Rd., Hualien City, Hualien County 970, Taiwan
Chikuang Branch	886-4-2222-0077	No.63, Zhongzheng Rd., Central Dist., Taichung City 400, Taiwan
Changhwa Branch	886-4-728-7777	No.199-3, Xiaoyang Rd., Changhua City, Changhua County 500, Taiwan
Fengyuan Branch	886-4-2515-2777	No.329, Zhongshan Rd., Fengyuan Dist., Taichung City 420, Taiwan
Tali Mini Branch	886-4-2486-6363	No.331, Sec. 2, Zhongxing Rd., Dali Dist., Taichung City 412, Taiwan
Chiayi Branch	886-5-228-0777	1F., No.193, Xinrong Rd., West Dist., Chiayi City 600, Taiwan
Fengcheng Branch	886-3-526-1101	No.59, Zhongzheng Rd., East Dist., Hsinchu City 300, Taiwan
Nanta Branch	886-3-526-3155	No.339, Nanda Rd., East Dist., Hsinchu City 300, Taiwan
Chuke Branch	886-3-577-5131	No.238, Sec. 1, Guangfu Rd., East Dist., Hsinchu City 300, Taiwan
Taitung Mini Branch	886-89-329-797	No.341, Sec. 1, Zhonghua Rd., Taitung City, Taitung County 950, Taiwan
Lotung Branch	886-3-953-3377	No.50, Gongzheng Rd., Luodong Township, Yilan County 265, Taiwan



COSMOSBANK