Financial Statements of

CTBC BANK CORP. (CANADA)

And Independent Auditor's Report thereon

Year ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CTBC Bank Corp. (Canada)

Opinion

We have audited the financial statements of CTBC Bank Corp. (Canada) (the Entity), which comprise:

- the statement of financial position as at December 31, 2023
- the statement of comprehensive income for the year then ended
- the statement of changes in shareholder's equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of Material accounting policy information.

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 27, 2024.

CTBC BANK CORP. (CANADA)

Statement of Financial Position
December 31, 2023, with comparative information for 2022

	2023	2022
Assets		
Cash resources:		
Cash and cash equivalents	$ 1,163,716	$ 1,150,079
Deposits with regulated financial institutions (note 5):		
Interest-bearing	184,506,027	112,718,668
Non-interest bearing	1,663,173	5,268,813
	187,332,916	119,137,560
Loans, net of allowance for credit losses (notes 6 and 7):		
Residential loans	159,129,261	128,668,863
Personal loans	5,514,024	5,718,187
Business loans	139,458,647	226,077,479
Allowance for credit losses	(3,096,085)	(3,514,885)
	301,005,847	356,949,644
Other:		
Equipment and leasehold improvements (note 8)	1,646,652	2,031,194
Right-of-use assets (note 11)	2,475,305	2,617,254
Deferred income tax asset (note 15)	447,209	664,429
Other assets (note 9)	1,870,241	1,631,956
	6,439,407	6,944,833
	$ 494,778,170	$ 483,032,037
Liabilities and Shareholder's Equity		
Deposits (notes 10):		
Retail	$ 294,596,468	$ 299,559,743
Institutional	96,177,586	89,322,640
Regulated financial institutions	792,125	1,156,950
	391,566,179	390,039,333
Income taxes payable	412,756	852,800
Lease liabilities (note 11)	2,584,974	2,703,294
Other liabilities (note 12)	6,265,745	3,675,486
	400,829,654	397,270,913
Shareholder's equity:		
Share capital (note 13)	36,999,988	36,999,988
Retained earnings	56,948,528	48,761,136
	93,948,516	85,761,124
	$ 494,778,170	$ 483,032,037

Commitments (note 17)
Guaranties (note 22)
See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

Director

CTBC BANK CORP. (CANADA)

Statement of Comprehensive Income

Year ended December 31, 2023, with comparative information for 2022.

	2023	2022
Interest income:		
Loans	$ 22,242,451	$ 18,727,597
Deposits with regulated financial institution	7,612,887	1,480,206
	29,855,338	20,207,803
Interest expense on deposits	(11,085,317)	(4,078,061)
Interest expense on lease liabilities (note 11)	(103,914)	(107,417)
Net interest income	18,666,107	16,022,325
Provision for credit losses (note 7)	491,604	(1,457,544)
	19,157,711	14,564,781
Other income (note 14)	1,262,144	1,803,381
Income before operating expenses	20,419,855	16,368,162
Operating expenses:		
Salaries and benefits	(4,838,262)	(4,616,526)
Rent, equipment and leasehold improvements, including depreciation	(1,430,539)	(1,204,989)
Right-of-use assets amortization (note 11)	(654,653)	(637,824)
Other expenses	(2,280,345)	(1,890,668)
	(9,203,799)	(8,350,007)
Income from operations before income taxes	11,216,056	8,018,155
Income tax expense (note 15)	(3,028,664)	(2,168,680)
Net income and comprehensive income	$ 8,187,392	$ 5,849,475

See accompanying notes to financial statements.

CTBC BANK CORP. (CANADA)

Statement of Changes in Shareholder's Equity

Year ended December 31, 2023, with comparative information for 2022.

	Share capital	Retained earnings	Total Shareholder's equity
Balance, December 31, 2021	$ 36,999,988	$ 42,911,661	$ 79,911,649
Net income and comprehensive income	-	5,849,475	5,849,475
Balance, December 31, 2022	36,999,988	48,761,136	85,761,124
Net income and comprehensive income	-	8,187,392	8,187,392
Balance, December 31, 2023	$ 36,999,988	$ 56,948,528	$ 93,948,516

See accompanying notes to financial statements.

CTBC BANK CORP. (CANADA)

Statement of Cash Flows

Year ended December 31, 2023, with comparative information for 2022.

	2023	2022
Cash provided by (used in):		
Cash flow from operating activities:		
Net income and comprehensive income	$ 8,187,392	$ 5,849,475
Adjustments for:		
Net interest income	(18,666,107)	(16,022,325)
Provision for credit losses (note 7)	(491,604)	1,457,544
Amortization of equipment, leasehold improvements and right-of-use assets (note 8,11)	1,300,043	1,094,910
Income tax expense (note 15)	3,028,664	2,168,680
	(6,641,612)	(5,451,716)
Net change in loans	56,435,401	22,409,691
Net change in deposits	1,526,846	11,259,581
Net change in other assets and other liabilities	(998,835)	(403,671)
	56,963,412	33,265,601
Interest received	29,984,525	20,077,533
Interest paid	(8,813,893)	(2,441,969)
Income tax paid	(2,405,204)	(1,546,618)
	18,765,428	16,088,946
Net cash from operating activities	69,087,228	43,902,831
Cash flow used in investing activities:		
Acquisition of equipment and leasehold improvements (note 8)	(260,848)	(118,519)
Cash flow used in financing activities:		
Payment of lease liabilities	(631,024)	(606,831)
Increase in cash resources	68,195,356	43,177,481
Cash resources, beginning of year	119,137,560	75,960,079
Cash resources, end of year	$ 187,332,916	$ 119,137,560
Cash resources are represented by:		
Cash	$ 1,163,716	$ 1,150,079
Deposits with regulated financial institutions:		
Interest bearing	184,506,027	112,718,668
Non-interest bearing	1,663,173	5,268,813
	$ 187,332,916	$ 119,137,560

See accompanying notes to financial statements.

1. Operations:

CTBC Bank Corp. (Canada) (the “Bank”) is a wholly owned subsidiary of CTBC Bank Co. Ltd. (the “Parent Bank”), a corporation registered in Taiwan, which is licensed to operate as a foreign bank in Canada under the Bank Act. The Bank is domiciled in Canada and its registered offices are located at #350-2608 Granville Street, Vancouver, British Columbia.

The Bank is subject to regulation by the Office of the Superintendent of Financial Institutions (“OSFI”). Under regulations and guidelines imposed by OSFI, the Bank is required to maintain prescribed ratios based on regulatory capital. The Bank currently meets these requirements (note 21).

These financial statements were authorized for issue by the Board of Directors on March 27, 2024.

2. Basis of presentation:

(a) Statement of compliance:

The financial statements are prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”). The significant accounting policies applied in the preparation of the financial statements are set out in note 3. Additionally, the Bank must also adhere to accounting requirements of OSFI, which conform in all material respects to IFRS Accounting Standards.

Details of the Bank’s accounting policies are included in note 3.

(b) Basis of measurement:

The financial statements have been prepared on a historical cost basis.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Bank’s functional currency. The functional currency of the Bank differs from the functional currency of the Parent Bank, which is New Taiwan dollars.

(d) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 4.

2. Basis of presentation (continued):

(e) Changes in material accounting policy information:

(i) IAS 12 Income taxes:

In May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes). The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, there is recognition of a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. The Bank adopted the amendments effective for our fiscal year beginning January 1, 2023, and there was no significant impact upon adoption.

(ii) Material accounting policy information:

The Bank also adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from January 1, 2023. The amendments did not result in any changes to the accounting policies or accounting policy information disclosed in the financial statements. The amendments require the disclosure of 'material' rather than 'significant' accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

3. Material accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Translation of foreign currencies:

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The Bank does not have any non-monetary assets and liabilities denominated in foreign currencies. Foreign currency differences arising on retranslation are recognized in the Statement of Comprehensive Income.

3. Material accounting policies (continued):

(b) Interest:

Interest income and expense, for all interest-bearing financial instruments, are recognized in the Statement of Comprehensive Income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation of the effective interest method includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability, respectively.

Interest income and expenses presented in the Statement of Comprehensive Income include interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis.

(c) Income tax expense:

Income tax expense comprises current and deferred income tax. Current income tax and deferred income tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity.

(i) Current income tax:

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(*ii*) Deferred income tax:

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

3. Material accounting policies (continued):

(c) Income tax expense (continued):

(*ii*) Deferred income tax (continued):

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(d) Financial instruments:

(*i*) Recognition, classification and measurement:

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit and loss (“FVTPL”).

A financial asset that is a debt instrument is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets that are equity instruments are classified as measured at FVTPL.

3. Material accounting policies (continued):

(d) Financial instruments (continued):

(*i*) Recognition, classification and measurement (continued):

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Bank may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the statement of income. For financial assets classified as measured at FVOCI for which an irrevocable elected has been made, changes in fair value are recognized in the statement of comprehensive income. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense are calculated using the effective interest method and are recognized in the statement of income.

Business model assessment for financial assets that are debt instruments:

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed, and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management.
- how managers of the business are compensated.
- whether the assets are held for trading purposes.
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

3. Material accounting policies (continued):

(d) Financial instruments (continued):

(*i*) Recognition, classification and measurement (continued):

Contractual cash flow characteristics assessment for financial assets that are debt instruments:

In assessing whether the contractual cash flows are solely payments of principal and interest, ‘principal’ is defined as the fair value of the financial asset on initial recognition and ‘interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

The Bank considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

(*ii*) Reclassification of financial assets:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing those assets. There were no changes to any of the Bank’s business models for the year ended December 31, 2023.

(*iii*) Impairment:

The expected credit loss (“ECL”) impairment model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECL: these are losses that result from possible default events within the 12 months after the reporting date; and
- lifetime ECL: these are losses that result from all possible default events over the expected life of a financial instrument.

The ECL model requires the recognition of credit losses based on up to 12-months of expected losses of performing loans (“Stage 1”) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (“Stage 2”) and credit impaired assets (“Stage 3”).

3. Material accounting policies (continued):

(d) Financial instruments (continued):

(*iii*) Impairment (continued):

Assessment of significant increase in credit risk:

The assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, management judgment, and delinquency and monitoring. The importance and relevance of each specific macroeconomic factor depends on the portfolio, characteristics of the financial instruments, and the borrower. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short and long term, including periods of adverse changes in the economic or business environment.

Measurement of ECL:

ECL is a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default ("PD"); loss given default ("LGD"); and exposure at default ("EAD").

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The LGD is an estimate of the amount that may not be recovered in the event of default. The EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions, where appropriate.

Credit-impaired and restructured financial assets:

At each reporting date, the Bank assesses whether financial assets measured at amortized cost or FVOCI are credit impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3. Material accounting policies (continued):

(d) Financial instruments (continued):

(*iii*) Impairment (continued):

If the terms of a financial asset are renegotiated or modified, or a financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and how ECL is measured. If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow of the existing asset at the time of its derecognition.

Presentation of impairment:

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Write-off:

Loan and debt securities are written off (either partially or full) when there is no probable prospect of recovery.

(*iv*) Derecognition of financial instruments:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Bank has transferred substantially all the risks and rewards of ownership of the financial asset.

Upon derecognition of a financial asset measured at amortized cost, realized gains or losses are recognized in net income. Upon derecognition of a financial asset debt instrument measured at FVOCI, the cumulative gains or losses previously recognized in other comprehensive income is reclassified from the fair value reserve component of equity to net income as a reclassification adjustment.

(e) Cash resources:

Cash resources consist of cash and cash equivalents and deposits with regulated financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments.

Cash resources are carried at amortized cost in the statement of financial position. Interest income on interest-bearing deposits is recorded on an accrual basis.

3. Material accounting policies (continued):

(f) Offsetting financial instruments:

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. No amounts are offset and presented net on the financial statement of financial position.

(g) Derivative instruments:

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices.

In the ordinary course of business, the Bank enters into foreign exchange forward contracts. These contracts are negotiated over-the-counter contracts. The Bank enters into such contracts to manage its exposure to currency fluctuations as part of the Bank's asset and liability management program.

Contracts entered into for the purpose of managing the Bank’s currency exposures are classified as FVTPL in the statement of financial position and are shown in either other assets or other liabilities. All changes in fair value are recognized immediately in net earnings as a component of other income or expense.

Fair value changes on derivatives held for risk management purposes are presented in other income in the statement of comprehensive income.

(h) Equipment and leasehold improvements:

(*i*) Recognition and measurement:

Equipment and leasehold improvements are measured at cost, less accumulated depreciation and accumulated impairment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. No parts of an item of equipment have different useful lives.

Gains and losses on disposal is determined by comparing the proceeds from disposal with the carrying amount of the item, and are recognized net of selling costs in the statement of comprehensive income in the year of disposal.

(*ii*) Subsequent costs:

The cost of replacing a part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in the statement of comprehensive income as incurred.

3. Material accounting policies (continued):

(h) Equipment and leasehold improvements (continued):

(*iii*) Depreciation:

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of the related assets since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as indicated below:

Asset	Rate
Furniture, fixtures, office and computer equipment	5 years
Leasehold improvements	10 years

Depreciation methods and useful lives are reassessed at each financial year-end and adjusted if appropriate.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(j) IFRS 16 Leases:

(*i*) Lease definition:

At inception of a contract, the Bank assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3. Material accounting policies (continued):

(j) IFRS 16 Leases (continued):

(ii) Recognition and measurement:

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets are initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there are changes in the following: i) in the lease term; ii) the Bank's assessment of whether it will exercise a purchase option; iii) a change in an index or a change in the rate used to determine the payments; and iv) amounts expected to be payable under residual value guarantees.

(k) Standards issued but not yet effective:

Certain new standards, interpretations, amendments, and improvements to existing standards were issued by the IASB. The Bank anticipates that the application of these standards, amendments, and interpretations in future periods, as listed below, will have no material impact on the results and financial position of the Bank, except for additional disclosures:

- **Lack of Exchangeability (Amendments to IAS 21):**

In August 2023, the IASB issued Amendments to IAS 21, whereby stating that when a currency is not exchangeable, the Bank needs to estimate a spot rate by using an observable exchange rate or using acceptable technique for estimating the exchange rate. The amendments also introduced new disclosure requirements relating to the nature and financial impacts of the currency not being exchangeable, the spot exchange rate used, the estimation process, and the related risks. The amendments are effective for the year beginning January 1, 2025, with early application permitted. CTBC Bank Corp. is in the process of assessing the impact of these amendments.

- **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16):**

In September 2022, the IASB issued amendments to IFRS 16 which impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered since 2019. The amendments are effective for the year beginning on or after January 1, 2024, with early adoption permitted. CTBC Bank Corp. is in the process of assessing the impact of these amendments.

4. Use of estimates and judgments:

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets and liabilities, and most critical judgments in applying accounting policies.

The principal areas where critical estimates and assumptions have been applied, are described below:

(*i*) Expected credit loss allowance:

The ECL model requires the recognition of credit losses based on 12-months of expected losses for performing loans ("Stage 1") and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination ("Stage 2"). Credit impaired assets require lifetime losses to be estimated ("Stage 3").

The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment, which requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of the ECL, the Bank must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the ECL allowance.

The calculation of ECL includes explicit incorporation of forecasted economic conditions. The Bank has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Experienced credit judgment is required to incorporate multiple probability-weighted forward-looking scenarios in the determination of the ECL allowance. The allowance is sensitive to changes in economic forecasts and the probability-weight assigned to each forward-looking scenario.

(*ii*) Fair value of financial instruments:

The fair value of financial instruments, where no active market exists or where quoted prices are not otherwise available, is determined by using specific valuation techniques with observable data of similar financial instruments.

Where market observable data is not available, in areas such as credit risk and correlations, the Bank uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

5. Deposits with regulated financial institutions:

Deposits with regulated financial institutions are unsecured. An analysis of deposits with regulated financial institutions by the earlier of contractual repricing or maturity and country of ultimate risk is as follows:

							2023	2022
	Floating	Within three months	Three months to one-year	One to five years	Over five years	Non-rate sensitive	Total	Total
Canada	$ 3,786,998	$ 97,000,000	$ -	$ -	$ -	$ 457,469	$ 101,244,467	$ 34,585,399
United States	874,004	82,845,025	-	-	-	1,205,704	84,924,733	83,402,082
	$ 4,661,002	$ 179,845,025	$ -	$ -	$ -	$ 1,663,173	$ 186,169,200	$ 117,987,481
Average effective yield	1.35%	4.75%	-%	-%	-%	-%	4.62%	1.62%

Average effective yields are based on book values and contractual interest rates.

6. Loans:

(a) An analysis of the Bank's loan portfolio, net of unearned income and the allowance for credit losses, by category and by location of ultimate risk, is as follows:

	2023	2022
Canada:		
Residential loans	$159,129,261	$ 128,668,863
Personal loans	5,514,024	5,718,187
Business loans:		
Manufacturing	-	-
Real estate	118,624,031	180,026,903
Services	9,783,283	23,873,844
General commerce	11,051,333	22,176,732
	304,101,932	360,464,529
Allowance for credit losses (note 7)	(3,096,085)	(3,514,885)
Total loans, net of allowance for credit losses	$ 301,005,847	$ 356,949,644

No loans are denominated in foreign currencies.

6. Loans (continued):

(b) The following table analyzes the Bank's loan portfolio before allowance for credit losses by contractual repricing or maturity dates, whichever are earlier, and country of ultimate risk:

	Floating	Within three months	Three months to one year	One to five years	Over five years	Non-rate sensitive	2023 Total	2022 Total
Canada	$ 270,906,465	$ -	$ 6,115,727	$ 27,079,740	$ -	$ -	$ 304,101,932	$ 360,464,529
Average effective yield	7.32%	-%	4.35%	4.89%	-%	-%	7.04%	6.88%

Average effective yields are based on book values and contractual interest rates.

7. Allowance for credit losses:

(a) Reconciliation of allowance for expected credit losses:

	Stage 1	Stage 2	Stage 3	Total
ECL on loans - Retail				
Balance at January 1, 2023	$ 362,857	$ 150,658	$ 1,000,000	$ 1,513,515
Net remeasurement	15,877	(5,468)	-	10,409
Originations	266,147	36,488	-	302,635
Derecognitions and maturities	(144,745)	-	-	(144,745)
Transfers to Stage 1	48,260	(48,260)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Balance at December 31, 2023	$ 548,396	$ 133,418	$ 1,000,000	$ 1,681,814
ECL on loans - Commercial				
Balance at January 1, 2023	$ 1,721,056	$ 280,314	$ -	$ 2,001,370
Net remeasurement	(35,066)	(14,426)	-	(49,492)
Originations	29,825	-	-	29,825
Derecognitions and maturities	(331,837)	(235,595)	-	(567,432)
Transfers to Stage 1	4,713	(4,713)	-	-
Transfers to Stage 2	(82,730)	82,730	-	-
Transfers to Stage 3	-	-	-	-
Balance at December 31, 2023	$ 1,305,961	$ 108,310	$ -	$ 1,414,271
Total ECL				
Balance at January 1, 2023	$ 2,083,913	$ 430,972	$ 1,000,000	$ 3,514,885
Net remeasurement	(19,189)	(19,894)	-	(39,083)
Originations	295,972	36,488	-	332,460
Derecognitions and maturities	(476,582)	(235,595)	-	(712,177)
Transfers to Stage 1	52,973	(52,973)	-	-
Transfers to Stage 2	(82,730)	82,730	-	-
Transfers to Stage 3	-	-	-	-
Balance at December 31, 2023	$ 1,854,357	$ 241,728	$ 1,000,000	$ 3,096,085

7. Allowance for credit losses (continued):

(a) Reconciliation of allowance for expected credit losses (continued):

	Stage 1	Stage 2	Stage 3	Total
ECL on loans - Retail				
Balance at January 1, 2022	$ 351,033	$ 122,183	$ 265,200	$ 738,416
Net remeasurement	(1,108)	141,605	734,800	875,297
Originations	80,055	-	-	80,055
Derecognitions and maturities	(86,288)	(93,965)	-	(180,253)
Transfers to Stage 1	26,015	(26,015)	-	-
Transfers to Stage 2	(6,850)	6,850	-	-
Transfers to Stage 3	-	-	-	-
Balance at December 31, 2022	$ 362,857	$ 150,658	$ 1,000,000	$ 1,513,515
ECL on loans - Commercial				
Balance at January 1, 2022	$ 1,384,415	$ -	$ -	$ 1,384,415
Net remeasurement	144,112	252,126	-	396,238
Originations	270,824	-	-	270,824
Derecognitions and maturities	(50,107)	-	-	(50,107)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(28,188)	28,188	-	-
Transfers to Stage 3	-	-	-	-
Balance at December 31, 2022	$ 1,721,056	$ 280,314	$ -	$ 2,001,370
Total ECL				
Balance at January 1, 2022	$ 1,735,448	$ 122,183	$ 265,200	$ 2,122,831
Net remeasurement	143,004	382,590	734,800	1,260,394
Originations	350,879	11,141	-	362,020
Derecognitions and maturities	(136,395)	(93,965)	-	(230,360)
Transfers to Stage 1	26,015	(26,015)	-	-
Transfers to Stage 2	(35,038)	35,038	-	-
Transfers to Stage 3	-	-	-	-
Balance at December 31, 2022	$ 2,083,913	$ 430,972	$ 1,000,000	$ 3,514,885

(b) Loans past due but not impaired:

A loan is considered past due when a payment has not been received by the contractual due date. Loans that are past due are not classified as impaired if they are either: (*i*) less than 90 days past due unless there is information to the contrary that an impairment event has occurred; or (*ii*) fully secured and collection efforts are reasonably expected to result in repayment of principal plus accrued interest. As at December 31, 2023, past due loans where payment of interest or principal is contractually in arrears, which are not classified as impaired, amounted to $6,202,270 (2022 - $17,315,778).

7. Allowance for credit losses (continued):

(c) Key economic variables:

The allowance for credit losses under IFRS 9 requires the consideration of forward-looking information. Forward-looking information is incorporated in both the determination of whether there has been a significant increase in credit risk (SICR) since initial recognition of the financial asset and in measurement of ECL allowances.

The Bank has determined that the following forward-looking macroeconomic factors are the key drivers that contribute to credit losses: Canada real GDP, Consumer Price Index (CPI), unemployment rate and long-term interest rate. These macroeconomic factors are forecasted at the provincial and national level.

The ECL allowances are calculated through three probability-weighted forward-looking scenarios including base, optimistic, and pessimistic, which are chosen from a number of scenarios. The three scenarios are reviewed and updated, as necessary at each reporting date, and the probability weights and the associated scenarios are determined through management review process.

The following table provides the values of the forward-looking macroeconomic inputs over the next 12 months for each of the scenarios.

	Base	Optimistic	Pessimistic
Canada real GDP, growth %	0.66	2.35	0.08
Canadian CPI inflation %	1.99	2.07	1.03
Canadian Unemployment rate change %	6.04	6.04	8.30
Long term interest rate %	3.41	3.41	3.77

The reported expected credit losses for financial assets in Stage 1 and Stage 2 under the optimistic macroeconomic conditions, with other assumptions held constant including the application of experienced credit judgment would be $2,708,475.

The reported expected credit losses for financial assets in Stage 1 and Stage 2 under the pessimistic macroeconomic conditions, with other assumptions held constant including the application of experienced credit adjustment would be $6,434,077.

8. Equipment and leasehold improvements:

The movement of equipment and leasehold improvements during the year is as follows:

2023	Leasehold improvements	Furniture, fixtures and equipment	Total
Cost:			
Balance, January 1, 2023	$ 2,374,350	$ 3,091,184	$ 5,465,534
Acquisitions	-	260,848	260,848
Balance, December 31, 2023	$ 2,374,350	$ 3,352,032	$ 5,726,382
Accumulated depreciation:			
Balance, January 1, 2023	$ 1,331,309	$ 2,103,031	$ 3,434,340
Depreciation	216,753	428,637	645,390
Balance, December 31, 2023	$ 1,548,062	$ 2,531,668	$ 4,079,730
Carrying amounts:			
Balance, December 31, 2023	$ 826,288	$ 820,364	$ 1,646,652

2022	Leasehold improvements	Furniture, fixtures and equipment	Total
Cost:			
Balance, January 1, 2022	$ 2,374,350	$ 2,996,120	$ 5,370,470
Acquisitions	-	118,519	118,519
Disposals	-	(23,455)	(23,455)
Balance, December 31, 2022	$ 2,374,350	$ 3,091,184	$ 5,465,534
Accumulated depreciation:			
Balance, January 1, 2022	$ 1,090,791	$ 1,909,918	$ 3,000,709
Depreciation	240,518	216,568	457,086
Disposals	-	(23,455)	(23,455)
Balance, December 31, 2022	$ 1,331,309	$ 2,103,031	$ 3,434,340
Carrying amounts:			
Balance, December 31, 2022	$ 1,043,041	$ 988,153	$ 2,031,194

9. Other assets:

	2023	2022
Interest receivable	$ 1,131,199	$ 1,069,004
Prepaid expenses	739,042	562,952
	$ 1,870,241	$ 1,631,956

10. Deposits:

(a) The following is an analysis of the Bank's deposits by category:

	Demand and chequable	Demand and non-chequable	Fixed Term	2023 Total	2022 Total
Canada:					
Retail	$ 7,203,376	$ 24,376,606	$ 102,670,979	$ 134,250,961	$ 171,248,218
Institutional	43,461,396	-	45,847,526	89,308,922	83,146,172
	50,664,772	24,376,606	148,518,505	223,559,883	254,394,390
Taiwan					
Retail	-	659,317	127,959,628	128,618,945	121,264,016
Institutional	199,155	-	-	199,155	788,339
Regulated financial institutions	763,999	-	-	763,999	1,107,819
	963,154	659,317	127,959,628	129,582,099	123,160,174
Other countries:					
Retail	2,004,691	25,852,896	3,868,975	31,726,562	7,047,509
Institutional	4,875,825	71,885	1,721,799	6,669,509	5,388,129
Regulated financial institutions	28,126	-	-	28,126	49,131
	6,908,642	25,924,781	5,590,774	38,424,197	12,484,769
	$ 58,536,568	$ 50,960,704	$ 282,068,907	$ 391,566,179	$ 390,039,333

Total deposits include $84,736,029 (2022 - $83,026,044) denominated in foreign currencies.

(b) The following table provides an analysis of deposits by contractual repricing or maturing dates, whichever are earlier:

	Floating	Within three months	Three months to one year	One to five years	Over five years	Non-rate sensitive	2023 Total	2022 Total
Demand (chequable)	$ 58,536,568	$ -	$ -	$ -	$ -	$ -	$ 58,536,568	$ 61,026,530
Demand (non-chequable)	50,960,703	-	-	-	-	-	50,960,703	32,241,912
Fixed Term	-	37,337,972	238,054,491	6,676,445 -		-282,068,908	296,770,891	
	$ 109,497,271	$ 37,337,972	$ 238,054,491	$ 6,676,445	$ -	$ -	$ 391,566,179	$ 390,039,333
Average effective interest rate	0.58%	3.80%	4.48%	4.14%	-%	-%	3.25%	2.24%

Average effective yields are based on book values and contractual interest rates.

11. Right-of-use assets and lease liabilities:

The movement of right-of use assets during the year is as follows:

2023	Right-of-use assets (premises)	Right-of-use assets (others)	Total
Cost:			
Balance, January 1, 2023	$ 4,591,696	$ 150,479	$ 4,742,175
Acquisitions	512,704	-	512,704
Disposals	(418,193)	-	(418,193)
Balance, December 31, 2023	$ 4,686,207	$ 150,479	$ 4,836,686
Accumulated depreciation:			
Balance, January 1, 2023	$ 2,082,921	$ 42,000	$ 2,124,921
Depreciation	630,527	24,126	654,653
Disposals	(418,193)	-	(418,193)
Balance, December 31, 2023	$ 2,295,255	$ 66,126	$ 2,361,381
Carrying amounts:			
Balance, December 31, 2023	$ 2,390,952	$ 84,353	$ 2,475,305

2022	Right-of-use assets (premises)	Right-of-use assets (other)	Total
Cost:			
Balance, January 1, 2022	$ 4,591,696	$ 94,742	$ 4,686,438
Acquisitions	-	102,135	102,135
Disposals	-	(46,398)	(46,398)
Balance, December 31, 2022	$ 4,591,696	$ 150,479	$ 4,742,175
Accumulated depreciation:			
Balance, January 1, 2022	$ 1,458,531	$ 74,964	$ 1,533,495
Depreciation	624,390	13,434	637,824
Disposals	-	(46,398)	(46,398)
Balance, December 31, 2022	$ 2,082,921	$ 42,000	$ 2,124,921
Carrying amounts:			
Balance, December 31, 2022	$ 2,508,775	$ 108,479	$ 2,617,254

11. Right-of-use assets and lease liabilities (continued):

The Bank leases a number of office premises. These leases typically run for a period of 5-10 years, with an option to renew the lease after that date.

The following table presents the contractual undiscounted cash flows for lease obligations as at December 31, 2023 and 2022:

	2023	2022
Within one year	$ 637,592	$ 678,492
One to five years	1,722,971	1,517,906
More than five years	527,293	841,405
Total undiscounted lease obligations	$ 2,887,856	$ 3,037,803

	2023	2022
Lease liabilities included in statement of financial position:		
Current	$ 545,654	$ 587,538
Non-current	2,039,320	2,115,756
Total	$ 2,584,974	$ 2,703,294

The Bank has used a weighted average incremental borrowing rate of 3.92% to discount its lease obligations (2022 - 3.72%). The Bank recognized interest expenses on lease liabilities amounted to $103,914 during the year ended December 31, 2023 (2022 - $107,417).

Variable lease payments not included in lease liabilities of $455,763 were expensed during the year ended December 31, 2023 (2022 - $446,909).

12. Other liabilities:

	2023	2022
Accrued interest payable	$ 4,949,151	$ 2,573,813
Other accrued expenses	1,316,594	1,101,673
	$ 6,265,745	$ 3,675,486

13. Share capital:

(a) Authorized:

At December 31, 2023 and 2022, the authorized share capital comprises of an unlimited number of ordinary shares of no par value.

(b) Issued and fully paid:

	2023		2022	
	Number of shares	Amount	Number of shares	Amount
Outstanding, end of year	2,745,695	$ 36,999,988	2,745,695	$ 36,999,988

14. Other income:

	2023	2022
Loan fees	$ 300,802	$ 557,402
Letters of credit and guarantee fees	197,225	198,025
Service charges	243,622	330,939
Unrealized foreign exchange gains	520,495	717,015
	$ 1,262,144	$ 1,803,381

15. Income taxes:

(a) Income taxes reported in the financial statements are as follows:

	2023	2022
Components of income tax expense are:		
Current income taxes	$ 2,811,443	$ 2,408,230
Deferred income taxes	217,221	(239,550)
	$ 3,028,664	$ 2,168,680

15. Income taxes (continued):

(b) The income tax provision shown in the statement of comprehensive income is different than that obtained by applying statutory rates to the net earnings from operations before provision for income taxes for the following reasons:

	2023	2022
Income from operations before income taxes	$ 11,216,056	$ 8,018,155
Combined Federal and Provincial statutory rate	27.00%	27.00%
Tax expense at combined statutory rate	$ 3,028,335	$ 2,164,902
Increase in income taxes resulting from: Permanent differences and other reconciling items	329	3,778
Income tax expense	$ 3,028,664	$ 2,168,680

(c) Deferred income tax assets and liabilities are attributable to the following items:

	Balance at December 31, 2022	Recognized in OCI	Recognized in net income	Balance at December 31, 2023	Deferred tax assets	Deferred tax liabilities
Allowance for credit losses	$ 727,735	$ -	$ (132,733)	$ 595,002	$ 595,002	$ -
Deferred revenue	133,877	-	(61,446)	72,431	72,431	-
Equipment and leasehold improvements	(191,893)	-	25,728	(166,165)	-	(166,165)
Deferred expenses	(50,121)	-	(55,149)	(105,270)	-	(105,270)
Right-of-use assets	(706,658)	-	38,326	(668,332)	-	(668,332)
Lease Liabilities	751,489	-	(31,946)	719,543	719,543	-
Deferred tax assets	$ 664,429	$ -	$ (217,220)	$ 447,209	$ 1,386,976	$ (939,767)

16. Related party transactions:

(a) Deposits:

In the normal course of its business, the Bank enters into transactions with the Parent Bank and affiliates and its directors and officers. Deposits include the following:

	2023	2022
Deposits by related banks	$ 792,125	$ 1,156,950

(b) Key management compensation:

	2023	2022
Salaries and other short-term employee benefits	$ 717,817	$ 1,586,818

17. Commitments:

In the normal course of business, the Bank enters into various commitments not recognized in the statement of financial position to meet the credit requirements of its customers.

Such commitments, which are not included in the statement of financial position, include:

(*i*) documentary and commercial letters of credit, which require the Bank to honour drafts presented by third parties upon completion of specific activities;

(*ii*) commitments to extend credit, which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to certain conditions; and

(*iii*) standby letters of credit representing the Bank's obligation to make payments to third parties on behalf of customers if those customers are unable to make the required payments or meet other contractual obligations.

These credit arrangements are subject to the Bank's normal credit standards, financial controls and monitoring procedures and collateral may be obtained where appropriate. The contract amounts for these commitments set out in the table below represent the maximum credit risk exposure to the Bank if the contracts were fully drawn, the counterparty defaults, and any collateral held proved to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements.

	2023	2022
Commitments to extend credit original term to maturity	$ 14,933,845	$ 68,560,448
Standby letters of credit	4,021,991	5,451,991
	$ 18,955,836	$ 74,012,439

18. Fair values of financial instruments:

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3(d)(i).

The carrying value is a reasonable approximation of fair value for the Bank's cash resources, credit commitments and other financial assets and liabilities, due to their short-term nature.

The fair values of financial instruments held at amortized cost have been determined as follows:

(a) Loans:

In determining the fair value of loans, the Bank incorporates the following assumptions:

(*i*) For fixed rate performing loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms, adjusting for estimated prepayments expected.

18. Fair values of financial instruments (continued):

(a) Loans (continued):

(*ii*) The total value of loans determined using the above assumption is reduced by the allowance for credit losses to determine the fair value of the Bank's loan portfolio.

(*iii*) For floating rate performing loans, changes in interest rates have minimal impact on the fair value since loans reprice to market frequently. On that basis, fair value is assumed to equal carrying value.

(b) Deposits:

In determining the fair value of deposits, the Bank incorporates the following assumptions:

(*i*) For fixed rate, fixed maturity deposits, the Bank discounts the remaining contractual cash flows, adjusted for expected redemptions, at market interest rates offered for deposits with similar terms and risks.

(*ii*) For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits reprice to market frequently. On that basis, fair value is assumed to equal carrying value.

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities. The table does not include assets and liabilities that do not meet the definitions of financial instruments.

	2023			2022		
	Book value	Fair value	Fair value over (under) book value	Book value	Fair value	Fair value over (under) book value
Financial assets:						
Assets carried at fair value:						
Cash resources	$187,332,916	$187,332,916	$ -	$119,137,560	$119,137,560	$ -
Assets carried at amortized cost:						
Loans	301,005,847	297,819,264	(3,186,583)	356,949,644	354,269,141	(2,680,503)
Other assets	1,131,199	1,131,199	-	1,069,004	1,069,004	-
Liabilities carried at amortized cost:						
Deposits	391,566,179	387,087,247	(4,478,932)	390,039,333	385,169,828	(4,869,505)
Other liabilities	6,265,745	6,265,745	-	3,675,486	3,675,486	-

18. Fair values of financial instruments (continued):

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - Financial instruments included in Level 1 are instruments with quoted prices in active markets for identical assets and liabilities.
- Level 2 - Financial instruments reported in Level 2 include those that have pricing inputs that are other than quoted prices in active markets, but which are either directly or indirectly observable as of the reporting date.
- Level 3 - Financial instruments reported in Level 3 do not have active markets and are measured using the Bank's best estimate of fair value, where the inputs into the determination of fair value are both significant to the fair value measurement and unobservable. These valuations require significant judgment or estimation.

The level in the fair value hierarchy within which the fair value is categorized shall be determined by the lowest level input that is significant to the fair value measurement.

For the years ended December 31, 2023 and 2022, loans and deposits are classified as Level 3 financial instruments and cash resources are classified as Level 1 financial instruments.

Other assets that represent interest receivable and classified as Level 3 financial instruments.

Other liabilities that represent interest payable and other accrued expenses classified as Level 3 financial instruments.

During the years ended December 31, 2023 and 2022, there were no transfers between Level 1, Level 2 and Level 3. The Bank recognizes transfers between levels in the fair value hierarchy at the end of the year during which the change occurred.

19. Interest rate sensitivity:

The following table summarizes carrying amounts of assets, liabilities and equity, and derivatives in the statement of financial position to arrive at the Bank's interest rate gap based on the earlier of contractual repricing and maturity dates.

	Floating	Within three months	Three months to one year	One to five years	Non-rate sensitive	2023	2022
Assets:							
Cash resources	$ 5,824,718	$179,845,025	$ -	$ -	$ 1,663,173	$ 187,332,916	$119,137,560
Loans	270,906,465	-	6,115,727	27,079,740	(3,096,085)	301,005,847	356,949,644
Other	-	-	-	-	6,439,407	6,439,407	6,944,833
	276,731,183	179,845,025	6,115,727	27,079,740	5,006,495	494,778,170	483,032,037
Liabilities and shareholder's equity:							
Deposits	43,798,922	125,001,339	216,101,736	6,664,182	-	391,566,179	390,039,333
Other	-	-	-	-	103,211,991	103,211,991	92,992,704
	43,798,922	125,001,339	216,101,736	6,664,182	103,211,991	494,778,170	483,032,037
Total gap	$ 232,932,261	$ 54,843,686	$ (209,986,009)	$ 20,415,558	$ (98,205,496)	$ -	$ -

19. Interest rate sensitivity (continued):

It is estimated that an immediate and sustained parallel increase in the interest rate of 1% across all maturities and currencies would increase net interest income by approximately $415,476 (2022 - $290,447) over the next twelve months using the following assumptions:

(*i*) accrued interest receivable and payable as at December 31, 2023 are excluded from the calculation;

(*ii*) no hedging of interest rate exposures are made;

(*iii*) instruments reprice evenly within their respective time bands;

(*iv*) existing credit commitments will not be drawn upon; and

(*v*) no prepayments of fixed term loans or early redemption of redeemable fixed term deposits will be made.

A 1% decrease in all interest rates would decrease net interest income by a similar amount.

20. Risk management:

The Bank has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk, market risk, interest rate risk and foreign exchange risk.

(a) Risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. Management has established the Asset and Liability (“ALCO”) and Credit Risk Committees, which are responsible for developing and monitoring the Bank’s risk management policies in their specified areas. The Committees report regularly to the Board of Directors on their activities.

The Bank’s risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee, a committee of the Board, assists the Board in monitoring compliance with the Bank’s risk management policies and procedures, and reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

20. Risk management (continued):

(b) Credit risk:

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans to customers and other banks and securities. The majority of loans are with customers located in Vancouver, British Columbia.

(*i*) Credit risk management:

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The organization structure of credit risk management includes the Board of Directors, Senior Management and the Credit Risk Management Department. The scope of their authorities is as follows:

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

Senior Management is responsible for supervising and ensuring the risk authorization system operates properly in accordance with the direction approved by the Board.

The Credit Risk Management Department is responsible for the following:

- Formulating credit risk policies in consultation with the Parent Bank, covering collateral requirements, credit assessment and review, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are delegated by the Board to Credit Officers to independently implement the credit review with the guidance of the stipulations of related credit risk approval authority, credit process policies and guidelines;
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band and market liquidity;
- Developing, in consultation with the Parent Bank and maintaining the Bank's risk gradings in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The current risk grading framework consists of thirteen pass grades, one watch-listed grade and two default grades reflecting varying degrees of probability of default. The responsibility for setting risk grades lies with the final approving authority as appropriate. Risk grades are subject to regular review by the appropriate approval authority; and
- Reviewing compliance with agreed exposure limits, including those for selected industries, and product types. Regular reports are provided to the Credit Risk Committee, Parent Bank and the Board of Directors on the credit quality of local portfolios and appropriate corrective action is taken.

20. Risk management (continued):

(b) Credit risk (continued):

(*i*) Credit risk management (continued):

Regular audits for compliance of credit risk policies are undertaken by Internal Audit and the Parent Bank.

The Bank holds collateral against loans to customers in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, and no such collateral was held at December 31, 2023 or 2022.

(*ii*) Credit risk exposure:

The following information represents the maximum exposure to credit risk before taking into consideration any collateral or credit enhancements. For financial assets recognized on the statement of financial position, the exposure to credit risk is their stated carrying amount. For loan commitments, the maximum exposure is the full amount of the undrawn facilities.

	2023	2022
On-balance sheet exposures	$ 301,005,847	$ 356,949,644
Off-balance sheet exposures	18,955,836	74,012,439
	$ 319,961,683	$ 430,962,083

The table below provides a distribution of the Bank's retail loan portfolio by Beacon score; however, it does not take into consideration other factors that may mitigate exposure to credit risk. Beacon scores are credit scores that are considered in assessing the credit risk of the retail portfolio.

Risk category	Beacon score range	Stage 1	Stage 2	Stage 3	2023
High	Below 603	$ 1,399,970	$ 1,607,531	$ -	$ 3,007,501
Medium	604-689	38,891,270	-	4,375,627	43,266,897
Low	690 and above	118,368,887	-	-	118,368,887
		$ 158,660,127	$ 1,607,531	$ 4,375,627	$ 164,643,285

Risk category	Beacon score range	Stage 1	Stage 2	Stage 3	2022
High	Below 603	$ 876,342	$ 1,779,870	$ -	$ 2,656,212
Medium	604-689	34,935,640	-	4,375,628	39,311,268
Low	690 and above	92,419,570	-	-	92,419,570
		$ 128,231,552	$ 1,779,870	$ 4,375,628	$ 134,387,050

20. Risk management (continued):

(b) Credit risk (continued):

(*ii*) Credit risk exposure (continued):

The business portfolio utilizes an assessment process that measures credit risk, taking into consideration a number of factors such as the borrower's management, current and projected financial results, industry statistics, and economic trends that cumulates into a risk rating. This risk rating categorizes risk according to the degree of financial loss faced and forces management to focus on these risks and helps determine where impairment provisions may be required. The current risk rating framework consists of internal grades reflecting varying degrees of risk of default and the availability of collateral or other credit enhancements. The credit quality of the Bank's business portfolio, expressed in terms of the internal risk ratings is shown in the table below:

Internal risk ratings	Stage 1	Stage 2	Stage 3	2023
1- ORR 0-5: Low	$ -	$ -	$ -	$ -
2- ORR 6-9: Normal	106,107,153	-	-	106,107,153
3- ORR 10-16: High	26,041,407	7,310,087	-	33,351,494
	$ 132,148,560	$ 7,310,087	$ -	$ 139,458,647

Internal risk ratings	Stage 1	Stage 2	Stage 3	2022
4- ORR 0-5: Low	$ 1,513,050	$ -	$ -	$ 1,513,050
5- ORR 6-9: Normal	164,062,307	-	-	164,062,307
6- ORR 10-16: High	45,937,092	14,565,030	-	60,502,122
	$ 211,512,449	$ 14,565,030	$ -	$ 226,077,479

(c) Liquidity risk:

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The key elements of the Bank's liquidity strategy are as follows.

- Maintaining a diversified funding base consisting of customer deposits and maintaining contingency facilities.
- Carrying a portfolio of liquid assets, diversified by currency and maturity.
- Monitoring maturity mismatches, and behavioral characteristics of the Bank's financial assets and financial liabilities.
- Stress testing of the Bank's liquidity position against various exposures and global, country specific and Bank specific events.

20. Risk management (continued):

(c) Liquidity risk (continued):

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains short-term liquid assets, largely made up of deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review by ALCO and the Parent Bank and approval by the Board of Directors. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO, the Board of Directors and the Parent Bank.

The Bank uses certain key measures with pre-determined key limits recommended by the Parent Bank for managing liquidity risk. Compliance to these key limits is monitored monthly and reported to ALCO, the Board of Directors and the Parent Bank. The key measures include ratio of liquid assets to deposits from customers with maturity within one year, ratio of liquid assets to total assets and ratio of liquid assets to total deposits from customers. Other key measures include breaking down of net liquid assets by months up to one year and up to three years and five years. Net liquid assets for this purpose are considered as assets less liability that has the same maturity period. Pre-determined key limits in dollar amounts are used for compliance monitoring.

(d) Market risk:

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risk exposure can be segregated between trading and non-trading portfolios. The Bank's market risk exposure is limited to interest rate risk and foreign exchange risk related to its non-trading portfolios as discussed below. Overall authority for market risk is vested in ALCO which is responsible for the development of detailed risk management policies (subject to review and concurrence by the Parent Bank and approval by the Board of Directors) and for the day-to-day review of their implementation.

20. Risk management (continued):

(e) Interest rate risk:

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. This risk and potential variability in earnings arise primarily when cash flows associated with interest sensitive assets and liabilities have different repricing dates. The differentials, or interest rate gaps, arise as a result of the financial intermediation process and reflect differences in term preferences on the part of borrowers and depositors.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities. Overall non-trading interest rate risk positions are managed by Treasury, which uses deposits with banks to manage the overall position arising from the Bank's non-trading activities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank’s financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100-basis point (“bp”) parallel fall or rise in market interest rate. See note 19 on interest rate sensitivity for analysis of the Bank's sensitivity to an increase or decrease in market interest rates.

(f) Foreign exchange risk:

The Bank is exposed to foreign exchange risk when part of its US dollar customer deposits is converted to Canadian dollar for lending purposes. Foreign exchange forward contracts are utilized to hedge against currency fluctuation.

21. Capital management:

Capital levels for Canadian banks are regulated pursuant to guidelines issued by OSFI, based on standards issued by the Bank for International Settlements. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 capital comprises the more permanent components of capital and consists primarily of common shareholders’ equity, non-cumulative preferred shares, the majority of which do not have conversion features into common shares, and the eligible amount of innovative capital instruments. In addition, goodwill is deducted from Tier 1 capital. Tier 2 capital consists mainly of subordinated debentures, trust subordinated notes, the eligible amount of innovative capital instruments that could not be included in Tier 1 capital, and an eligible portion of the total collective allowance for credit losses. Total capital is defined as the total of Tier 1 and Tier 2 capital less deductions as prescribed by OSFI.

21. Capital management (continued):

OSFI requires financial institutions to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the deemed credit risk of each type of asset, a weighting of 0% to 150% is assigned. As an example, a loan that is fully insured by the Canada Mortgage and Housing Corporation (“CMHC”) is applied a risk weighting of 0% as the Bank's risk of loss is Nil, while uninsured commercial loans may be assigned a risk weighting of 100% to reflect the higher level of risk associated with this type of asset. The ratio of regulatory capital to risk-weighted assets is calculated and compared to OSFI's standards for Canadian financial institutions. Off-balance sheet assets, such as the notional amount of derivatives and some credit commitments, are included in the calculation of risk-weighted assets and both the credit risk equivalent and the risk-weight calculations are prescribed by OSFI. Regulatory ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets.

OSFI has established that Canadian financial institutions need to maintain a minimum total capital adequacy ratio of 10.5% with a Tier 1 ratio of not less than 8.5%.

Capital funds are managed with policies and plans that are regularly reviewed by the Parent Bank as well as the Board of Directors and take into account forecasted capital needs and market conditions. The goal is to maintain adequate regulatory capital to be considered well capitalized, protect customer deposits and provide capacity for internally generated growth and strategic opportunities that do not otherwise require accessing the external capital market, all while providing a satisfactory return to the Parent Bank and its shareholders.

The Bank's Tier 1 and Tier 2 regulatory capital and ratios for the year ended December 31, 2023 have been calculated using Basel III. As at December 31, 2023 and 2022, the Bank did not have any Tier 2 regulatory capital.

The Leverage Ratio is defined as Tier 1 capital divided by the sum of on-balance sheet items and specified off-balance sheet items, net of specified adjustments (leverage exposures). Institutions are expected to maintain a material operating buffer that meets or exceeds 3% at all times.

As at December 31, 2023, the Bank’s total risk based capital ratio was 32.03% (2022 - 25.01%). As at December 31, 2023, the Bank’s leverage ratio was 18.78% (2022 – 17.20%). The Bank complied with the regulatory total capital ratio and regulatory leverage ratio requirements during 2023 and 2022.

22. Guarantees:

A guarantee is defined to be a contract that contingently requires the Bank to make payments to a third party based on: (a) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty; (b) failure of another party to perform under an obligating agreement; or (c) failure of another third party to pay its indebtedness when due.

Significant guarantees that the Bank has provided to third parties include the following:

(a) Guarantees and standby letters of credit:

Guarantees and standby and performance letters of credit are considered guarantees, and represent obligations to make payments to third parties, on behalf of customers, if they are unable to make required payments or to meet other contractual requirements. Collateral requirements for guarantees and standby letters of credit are consistent with collateral requirements for loans.

(b) Indemnification agreements:

The Bank also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, a director or officer at the request of the Bank. The terms of these indemnifications vary based on the contract, the nature of which prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Bank believes that the likelihood that it would incur significant liability under these obligations is remote. Historically, the Bank has not made any significant payments under such indemnifications. No liability has been included in the statement of financial position as at December 31, 2023 and 2022 related to these indemnifications.