# Chang Hwa Commercial Bank, Ltd. and Subsidiaries

## Consolidated Financial Statements for the Years Ended December 31, 2014 and 2013 and Independent Auditors' Report

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Chang Hwa Commercial Bank, Ltd.

We have audited the accompanying consolidated balance sheets of Chang Hwa Commercial Bank, Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2014 and 2013, and related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2014 and 2013, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2014 and 2013, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the parent company only financial statements of Chang Hwa Commercial Bank, Ltd. as of and for the years ended December 31, 2014 and 2013 on which we have issued an unqualified report.

March 27, 2015

*Notice to Readers*

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

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

## CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**
**DECEMBER 31, 2014 AND 2013**
**(In Thousands of New Taiwan Dollars)**

| | 2014 | | 2013 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| Cash and cash equivalents (Notes 4, 6 and 36) | $ 39,586,197 | 2 | $ 46,802,014 | 3 |
| Due from the Central Bank and call loans to banks (Notes 4, 6 and 36) | 109,277,694 | 6 | 86,827,081 | 5 |
| Financial assets at fair value through profit or loss (Notes 4 and 7) | 37,825,737 | 2 | 60,001,473 | 4 |
| Derivative financial assets for hedging (Notes 4 and 12) | 27,629 | - | 62,494 | - |
| Receivables, net (Notes 4, 8 and 9) | 21,809,314 | 1 | 20,208,734 | 1 |
| Current tax assets (Notes 4 and 30) | 581,958 | - | 780,220 | - |
| Loans, net (Notes 4, 5, 9, 35 and 36) | 1,259,366,749 | 70 | 1,142,867,165 | 67 |
| Available-for-sale financial assets, net (Notes 4, 10 and 37) | 46,145,608 | 3 | 37,884,111 | 2 |
| Held-to-maturity financial assets, net (Notes 4, 5, 11 and 37) | 183,637,059 | 10 | 226,989,182 | 13 |
| OTHER FINANCIAL ASSETS, NET | | | | |
| Financial assets carried at cost, net (Notes 4 and 13) | 4,167,009 | - | 4,181,203 | - |
| Debt investments without active market (Notes 4 and 14) | 3,400,342 | - | 3,811,523 | - |
| Other miscellaneous financial assets, net (Notes 4, 15 and 37) | 71,155,311 | 4 | 31,279,953 | 2 |
| Other financial assets, net | 78,722,662 | 4 | 39,272,679 | 2 |
| Property and equipment, net (Notes 4 and 16) | 23,822,844 | 1 | 23,935,458 | 2 |
| Investment property, net (Notes 4 and 17) | 11,012,440 | 1 | 10,937,868 | 1 |
| Intangible assets, net (Notes 4 and 18) | 473,336 | - | 80,006 | - |
| Deferred tax assets (Notes 4, 5 and 30) | 3,186,032 | - | 3,107,599 | - |
| Other assets (Notes 19, 32 and 37) | 397,708 | - | 299,457 | - |
| TOTAL | $ 1,815,872,967 | 100 | $ 1,700,055,541 | 100 |
| **LIABILITIES AND EQUITY** | | | | |
| Due to the Central Bank and banks (Notes 4, 20 and 36) | $ 124,155,182 | 7 | $ 126,829,032 | 7 |
| Finance due to banks | 950,100 | - | - | - |
| Financial liabilities at fair value through profit or loss (Notes 4 and 7) | 20,858,363 | 1 | 1,715,364 | - |
| Securities sold under repurchase agreements (Note 4) | 4,526,694 | - | 4,504,591 | - |
| Payables (Notes 4, 21 and 28) | 29,505,168 | 2 | 25,233,888 | 2 |
| Current tax liabilities (Notes 4 and 30) | 849,381 | - | 125,334 | - |
| Deposits and remittances (Notes 4, 22 and 36) | 1,452,969,285 | 80 | 1,372,890,099 | 81 |
| Bank note payables (Notes 4 and 23) | 48,463,938 | 3 | 43,322,818 | 3 |
| Other financial liabilities (Notes 4 and 24) | 624,416 | - | 672,028 | - |
| Reserve for liabilities (Notes 4, 5 and 26) | 4,034,679 | - | 3,673,201 | - |
| Deferred tax liabilities (Notes 4 and 30) | 6,738,024 | - | 6,461,749 | - |
| Other liabilities (Notes 4, 25 and 32) | 2,956,636 | - | 2,224,107 | - |
| Total liabilities | 1,696,631,866 | 93 | 1,587,652,211 | 93 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4, 28 and 30) | | | | |
| Capital stock | | | | |
| Common stock | 79,040,404 | 5 | 77,490,592 | 5 |
| Retained earnings | | | | |
| Legal reserve | 17,022,790 | 1 | 14,377,315 | 1 |
| Special reserve | 12,020,521 | 1 | 12,020,521 | 1 |
| Unappropriated earnings | 10,723,060 | - | 8,882,010 | - |
| Other equity | | | | |
| Exchange differences on translation of foreign financial statements | 750,956 | - | 148,105 | - |
| Unrealized gains (losses) on available-for-sale financial assets | (316,630) | - | (515,213) | - |
| Total equity | 119,241,101 | 7 | 112,403,330 | 7 |
| TOTAL | $ 1,815,872,967 | 100 | $ 1,700,055,541 | 100 |

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

# CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| INTEREST INCOME (Notes 4, 29 and 36) | $ 31,862,471 | 120 | $ 27,321,411 | 115 |
| INTEREST EXPENSES (Notes 29 and 36) | (12,524,515) | (47) | (10,240,983) | (43) |
| NET INTEREST INCOME | 19,337,956 | 73 | 17,080,428 | 72 |
| NET INCOME OTHER THAN NET INTEREST INCOME | | | | |
| Net service fee and commissions income (Notes 4 and 29) | 4,699,639 | 18 | 4,145,468 | 17 |
| Gain on financial assets and liabilities at fair value through profit or loss (Notes 4, 7 and 29) | 875,488 | 3 | 1,064,579 | 5 |
| Realized gain on available-for-sale financial assets (Notes 4 and 29) | 118,753 | - | 246,296 | 1 |
| Foreign exchange gains (losses) (Note 4) | 986,655 | 4 | 739,433 | 3 |
| Other miscellaneous net income (Note 12) | 545,006 | 2 | 547,005 | 2 |
| Net income other than net interest income | 7,225,541 | 27 | 6,742,781 | 28 |
| NET REVENUE AND GAINS | 26,563,497 | 100 | 23,823,209 | 100 |
| REVERSED ALLOWANCE FOR BAD DEBTS EXPENSES AND GUARANTEE LIABILITY PROVISIONS (Notes 4 and 9) | 884,084 | 3 | 637,773 | 3 |
| OPERATING EXPENSES | | | | |
| Employee benefits expenses (Notes 4 and 29) | (10,062,201) | (38) | (9,491,859) | (40) |
| Depreciation and amortization expenses (Notes 4 and 29) | (715,465) | (2) | (668,247) | (3) |
| Other general and administrative expenses | (4,245,830) | (16) | (3,553,156) | (15) |
| Total operating expenses | (15,023,496) | (56) | (13,713,262) | (58) |
| INCOME BEFORE INCOME TAX | 12,424,085 | 47 | 10,747,720 | 45 |
| INCOME TAX EXPENSE (Notes 4 and 30) | (1,526,905) | (6) | (1,929,471) | (8) |
| NET INCOME | 10,897,180 | 41 | 8,818,249 | 37 |

(Continued)

# CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OTHER COMPREHENSIVE INCOME | | | | |
| Exchange differences on translation of foreign financial statements (Note 4) | $ 700,170 | 2 | $ 282,193 | 1 |
| Unrealized gains (losses) on available-for-sale financial assets (Note 4) | 196,830 | 1 | (665,256) | (2) |
| Actuarial gain and loss arising from defined benefit plans (Notes 4 and 27) | (254,709) | (1) | (202,689) | (1) |
| Income tax relating to the components of other comprehensive income (loss) (Notes 4 and 30) | (52,265) | - | (566) | - |
| Other comprehensive income (loss), net of tax | 590,026 | 2 | (586,318) | (2) |
| TOTAL COMPREHENSIVE INCOME | $ 11,487,206 | 43 | $ 8,231,931 | 35 |
| NET PROFIT ATTRIBUTABLE TO: | | | | |
| Owners of the Parent | $ 10,897,180 | 41 | $ 8,818,249 | 37 |
| Non-controlling interests | - | - | - | - |
| | $ 10,897,180 | 41 | $ 8,818,249 | 37 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the Parent | $ 11,487,206 | 43 | $ 8,231,931 | 35 |
| Non-controlling interests | - | - | - | - |
| | $ 11,487,206 | 43 | $ 8,231,931 | 35 |
| EARNINGS PER SHARE (Note 30) | | | | |
| Basic | $1.38 | | $1.12 | |
| Diluted | $1.37 | | $1.11 | |

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

## CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**
**(In Thousands of New Taiwan Dollars)**

| | Equity Attributable to Owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Other Equity | | |
| | Capital Stock | | Retained Earnings | | | | | |
| | Shares (Thousand) | Amount | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on Translation of Foreign Financial Statements | Unrealized Gains (Losses) on Available-for-sale Financial Assets | Total Equity |
| BALANCE, JANUARY 1, 2013 | 7,242,111 | $ 72,421,114 | $ 11,836,090 | $ 241,692 | $ 20,345,736 | $ (100,335) | $ 151,313 | $ 104,895,610 |
| Special reserve | - | - | - | 11,778,829 | (11,778,829) | - | - | - |
| Appropriation of 2012 earnings | | | | | | | | |
| Legal reserve | - | - | 2,541,225 | - | (2,541,225) | - | - | - |
| Cash dividends on common stock | - | - | - | - | (724,211) | - | - | (724,211) |
| Stock dividends | 506,948 | 5,069,478 | - | - | (5,069,478) | - | - | - |
| Net income for the year ended December 31, 2013 | - | - | - | - | 8,818,249 | - | - | 8,818,249 |
| Other comprehensive income for the year ended December 31, 2013, net of tax | - | - | - | - | (168,232) | 248,440 | (666,526) | (586,318) |
| Total comprehensive income for the year ended December 31, 2013 | - | - | - | - | 8,650,017 | 248,440 | (666,526) | 8,231,931 |
| BALANCE, DECEMBER 31, 2013 | 7,749,059 | 77,490,592 | 14,377,315 | 12,020,521 | 8,882,010 | 148,105 | (515,213) | 112,403,330 |
| Appropriation of 2013 earnings | | | | | | | | |
| Legal reserve | - | - | 2,645,475 | - | (2,645,475) | - | - | - |
| Cash dividends on common stock | - | - | - | - | (4,649,435) | - | - | (4,649,435) |
| Stock dividends | 154,981 | 1,549,812 | - | - | (1,549,812) | - | - | - |
| Net income for the year ended December 31, 2014 | - | - | - | - | 10,897,180 | - | - | 10,897,180 |
| Other comprehensive income for the year ended December 31, 2014, net of tax | - | - | - | - | (211,408) | 602,851 | 198,583 | 590,026 |
| Total comprehensive income for the year ended December 31, 2014 | - | - | - | - | 10,685,772 | 602,851 | 198,583 | 11,487,206 |
| BALANCE, DECEMBER 31, 2014 | 7,904,040 | $ 79,040,404 | $ 17,022,790 | $ 12,020,521 | $ 10,723,060 | $ 750,956 | $ (316,630) | $ 119,241,101 |

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

# CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**
**(In Thousands of New Taiwan Dollars)**

| | 2014 | 2013 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income before income tax | $ 12,424,085 | $ 10,747,720 |
| Non-cash (revenues and gains) or expenses and losses | | |
| Reversed allowance for bad debts expenses and guarantee liability provisions | (884,084) | (637,773) |
| Depreciation expenses | 596,870 | 637,911 |
| Amortization expenses | 118,595 | 30,336 |
| Interest income | (31,862,471) | (27,321,411) |
| Interest expenses | 12,524,515 | 10,240,983 |
| Dividends income | (292,404) | (338,560) |
| Net gain on financial assets and liabilities at fair value through profit or loss | (1,425,094) | (1,644,440) |
| Losses (gain) on disposal of investments | 30,843 | (193,652) |
| Unrealized foreign exchange losses | 549,606 | 579,861 |
| Other adjustments | 167,029 | (219,232) |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in due from the Central Bank | (6,206,427) | 1,502,016 |
| Decrease (increase) in financial assets at fair value through profit or loss | 32,600,657 | (17,235,108) |
| Increase in receivables | (36,679) | (2,569,384) |
| Increase in loans | (115,464,623) | (13,068,876) |
| (Increase) decrease in available-for-sale financial assets | (7,310,588) | 25,948,764 |
| Decrease (increase) in held-to-maturity financial assets | 43,262,610 | (56,292,882) |
| Increase in other financial assets | (39,440,661) | (29,118,885) |
| Increase in other assets | (98,708) | (19,445) |
| Increase (decrease) in due to the Central Bank and banks | 7,891,621 | (2,280,640) |
| Increase in deposits and remittances | 80,079,186 | 56,801,109 |
| Increase (decrease) in payables | 3,897,264 | (7,781,949) |
| Decrease in financial liabilities at fair value through profit or loss | (6,492,281) | (6,647,186) |
| Decrease in reserve for liabilities | (114,726) | (309,178) |
| Decrease in other financial liabilities | (47,612) | (692,645) |
| Increase in other liabilities | 706,697 | 505,321 |
| Cash used in operations | (14,826,780) | (59,377,225) |
| Interest received | 29,948,559 | 27,021,784 |
| Dividend received | 292,404 | 338,560 |
| Interest paid | (12,157,939) | (10,336,136) |
| Income taxes refund | 203,103 | - |
| Income taxes paid | (657,281) | (333,038) |
| Net cash flows generated from (used in) operating activities | 2,802,066 | (42,686,055) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital reduction of financial assets carried at cost | - | 517,231 |
| Acquisition of property and equipment | (567,103) | (468,344) |
| Acquisition of investment property | (133) | (470) |

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# CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**
**(In Thousands of New Taiwan Dollars)**

| | 2014 | 2013 |
|---|---|---|
| Acquisition of intangible assets | $ (500,377) | $ (20,514) |
| Proceeds from disposal of property and equipment | 1,449 | 514 |
| Net cash (used in) generated from investing activities | (1,066,164) | 28,417 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| (Decrease) increase in due to the Central Bank and call loans from banks | (9,615,371) | 28,579,474 |
| Proceeds from issuance of bank notes | 25,835,000 | 4,879,000 |
| Repayment of bank notes | (5,000,000) | - |
| Cash dividends distributed | (4,649,435) | (724,211) |
| Increase (decrease) in securities sold under repurchase agreements | 22,103 | (1,124,963) |
| Net cash flows generated from financing activities | 6,592,297 | 31,609,300 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 700,170 | 282,193 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 9,028,369 | (10,766,145) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 73,199,864 | 83,966,009 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 82,228,233 | $ 73,199,864 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents in consolidated balance sheet | $ 39,586,197 | $ 46,802,014 |
| Call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7 permitted by the Financial Supervisory Commission | 42,642,036 | 26,397,850 |
| Cash and cash equivalents at end of period | $ 82,228,233 | $ 73,199,864 |

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

## 1. ORGANIZATION AND BUSINESS SCOPE

Chang Hwa Commercial Bank, Ltd. (the “Bank”) was incorporated under Banking Law, Securities and Exchange Law and Taiwan Company Law on March 1, 1947 and got license from the Ministry of Economic Affairs in July 1950. Since February 1962 the Bank’s shares have been listed and traded on the Taiwan Stock Exchange.

The Bank mainly engages in the following business:

a. All commercial banking operations allowed by the Banking Law;
b. Trust operations;
c. International banking operations;
d. Overseas branch operations authorized by the respective foreign governments; and
e. Other operations authorized by the central authority.

The Bank’s head office is located in Taichung City, Taiwan. The Bank has banking and trust departments in head office, 184 domestic branches, an international financing branch, 3 agents conducting securities brokerage activities, 8 overseas branches in New York, Los Angeles, Tokyo, London, Singapore, Hong Kong, Kunshan China and Dongguan.

CHB Life Insurance Agency Co., Ltd. (“CHB Life Insurance Agency”) was established on October 3, 2001 to provide life insurance agent service.

CHB Insurance Brokerage Co., Ltd. (“CHB Insurance Brokerage”) established on April 7, 2003 to provide property insurance broker service.

The consolidated financial statements are presented in the Bank’s functional currency, New Taiwan dollars.

## 2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 27, 2015.

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

a. The amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC not yet effective

   Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC, stipulated that the Bank and entities controlled by the Bank (the “Group”) should apply the 2013 version of IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) endorsed by the FSC and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

| New, Amended and Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note) |
|---|---|
| Improvements to IFRSs (2009) - amendment to IAS 39 | January 1, 2009 and January 1, 2010, as appropriate |
| Amendment to IAS 39 "Embedded Derivatives" | Effective for annual periods ended on or after June 30, 2009 |
| Improvements to IFRSs (2010) | July 1, 2010 and January 1, 2011, as appropriate |
| Annual Improvements to IFRSs 2009-2011 Cycle | January 1, 2013 |
| Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters" | July 1, 2010 |
| Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters" | July 1, 2011 |
| Amendment to IFRS 1 "Government Loans" | January 1, 2013 |
| Amendment to IFRS 7 "Disclosure - Offsetting Financial Assets and Financial Liabilities" | January 1, 2013 |
| Amendment to IFRS 7 "Disclosure - Transfer of Financial Assets" | July 1, 2011 |
| IFRS 10 "Consolidated Financial Statements" | January 1, 2013 |
| IFRS 11 "Joint Arrangements" | January 1, 2013 |
| IFRS 12 "Disclosure of Interests in Other Entities" | January 1, 2013 |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance" | January 1, 2013 |
| Amendments to IFRS 10 and IFRS 12 and IAS 27 "Investment Entities" | January 1, 2014 |
| IFRS 13 "Fair Value Measurement" | January 1, 2013 |
| Amendment to IAS 1 "Presentation of Other Comprehensive Income" | July 1, 2012 |
| Amendment to IAS 12 "Deferred Tax: Recovery of Underlying Assets" | January 1, 2012 |
| IAS 19 (Revised 2011) "Employee Benefits" | January 1, 2013 |
| IAS 27 (Revised 2011) "Separate Financial Statements" | January 1, 2013 |
| IAS 28 (Revised 2011) "Investments in Associates and Joint Ventures" | January 1, 2013 |
| Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities" | January 1, 2014 |
| IFRIC 20 "Stripping Costs in Production Phase of a Surface Mine" | January 1, 2013 |

Note: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after the respective effective dates.

Except for the following, whenever applied, the initial application of the above 2013 IFRSs version and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group's accounting policies:

1) IFRS 13 "Fair Value Measurement"

   IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

   The fair value measurements under IFRS 13 will be applied prospectively from January 1, 2015.

2) Amendments to IAS 1 “Presentation of Items of Other Comprehensive Income”

The amendments to IAS 1 requires items of other comprehensive income to be grouped into those items that (1) will not be reclassified subsequently to profit or loss; and (2) may be reclassified subsequently to profit or loss. Income taxes on related items of other comprehensive income are grouped on the same basis. Under current IAS 1, there were no such requirements.

The Group will retrospectively apply the above amendments starting from 2015. Items not expected to be reclassified to profit or loss are remeasurements of the defined benefit plans. Items expected to be reclassified to profit or loss are the exchange differences on translating foreign operations, unrealized gains (loss) on available-for-sale financial assets. However, the application of the above amendments will not result in any impact on the net profit for the year, other comprehensive income for the year (net of income tax), and total comprehensive income for the year.

3) Revision to IAS 19 “Employee Benefits”

The revision requires all remeasurements of the defined benefit plans to be recognized immediately through other comprehensive income in order for the net pension asset or liability to reflect the full value of the plan deficit or surplus. The Group has not determined how to present the remeasurements of defined benefit plans in the consolidated statements of changes in equity.

Furthermore, the interest cost and expected return on plan assets used in current IAS 19 are replaced with a “net interest” amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, the revised IAS 19 introduces certain changes in the presentation of the defined benefit cost, and also includes more extensive disclosures.

On initial application of the revised IAS 19 in 2015, there is no material change to the Group’s consolidated financial statements. In addition, in preparing the consolidated financial statements for the year ended December 31, 2015, the Group would elect not to present 2014 comparative information about the sensitivity of the defined benefit obligation.

4) Recognition and measurement of financial liabilities designated as at fair value through profit or loss

In accordance with the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, for financial liabilities designated as at fair value through profit or loss, the amount of change in the fair value attributable to changes in the credit risk of that liability is presented in other comprehensive income and the remaining amount of change in the fair value of that liability is presented in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. If the above accounting treatment would create or enlarge an accounting mismatch, all gains or losses on that liability are presented in profit or loss.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following New IFRSs issued by the IASB but not yet endorsed by the FSC. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced their effective dates.

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2010-2012 Cycle | July 1, 2014 (Note 2) |
| Annual Improvements to IFRSs 2011-2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012-2014 Cycle | January 1, 2016 (Note 4) |
| IFRS 9 “Financial Instruments” | January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures” | January 1, 2018 |
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | January 1, 2016 (Note 3) |
| Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception” | January 1, 2016 |
| Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations” | January 1, 2016 |
| IFRS 14 “Regulatory Deferral Accounts” | January 1, 2016 |
| IFRS 15 “Revenue from Contracts with Customers” | January 1, 2017 |
| Amendment to IAS 1 “Disclosure Initiative” | January 1, 2016 |
| Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization” | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants” | January 1, 2016 |
| Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions” | July 1, 2014 |
| Amendment to IAS 27 “Equity Method in Separate Financial Statements” | January 1, 2016 |
| Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets” | January 1, 2014 |
| Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting” | January 1, 2014 |
| IFRIC 21 “Levies” | January 1, 2014 |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: Prospectively applicable to transactions occurring in annual periods beginning on or after January 1, 2016.

Note 4: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

- IFRS 9 “Financial Instruments”

  Recognition and measurement of financial assets

  With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

<u>The impairment of financial assets</u>

IFRS 9 requires that impairment loss on financial assets is recognized by using the "Expected Credit Losses Model". The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

<u>Hedge accounting</u>

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risk eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and IFRSs as endorsed by the FSC.

### Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### Current/Noncurrent Assets and Liabilities

Because of its business characteristics, assets and liabilities of the Group are classified according to their liquidity rather than classified as current or noncurrent assets or liabilities.

### Basis of Consolidation

a. Principles for preparing consolidated financial statements

   The consolidated financial statements incorporate the financial statements of the Bank and the entities controlled by the Bank (its subsidiaries).

   When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

   All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

b. Subsidiary included in consolidated financial statements

| | | | % of Ownership | |
|---|---|---|---|---|
| | | | December 31 | |
| **Investor** | **Investee** | **Main Business** | **2014** | **2013** |
| The Group | CHB Life Insurance Agency | Life Insurance Agency | 100 | 100 |
| | CHB Insurance Brokerage | Property Insurance Brokerage | 100 | 100 |

### Foreign Currencies

In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries, associates, joint ventures or branches operations in other countries or currencies used different with the Group) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Freehold land is not depreciated.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. Assets are depreciated over the shorter of the lease term and their useful lives using the straight-line method.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

**Investment Properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Any gain or loss arising on derecognition of the property is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

**Intangible Assets**

a. Intangible assets acquired separately

   Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

b. Derecognition of intangible assets

Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

**Impairment of Tangible and Intangible Assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

**Financial Instruments**

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis date basis.

1) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

ii. The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

iii. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

b) Held-to-maturity investments

Corporate bonds, and foreign bonds, which are above specific credit ratings and the Group has positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

d) Loans and receivables

Loans and receivables (including trade receivables, loans, cash and cash equivalent, debt investments with no active market, and other receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortized cost, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables, and other situation.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is 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.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loans, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and loans are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and loans that are written off against the allowance account.

3) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Equity instruments

Debt and equity instruments issued by a bank entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

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

a) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and if:

i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

ii. The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

iii. The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividend paid on the financial liability.

b) Financial guarantee contracts

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of the best estimate of the obligation under the contract or the amount initially recognized less cumulative amortization recognized.

2) Derecognition of financial liabilities

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

d. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, FX swap, cross currency swap, interest rate swaps and currency option.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

**Bonds or Securities Purchased/Sold under Specific Agreements**

Bonds or securities sold under repurchase agreement are recorded at sale price. Interest revenues and expenses are recorded on accrual basis.

**Hedge Accounting**

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges. Hedges of foreign exchange risk on firm commitments are accounted for as fair value hedge.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Group revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The fair value adjustment to the carrying amount of the hedged instrument arising from the hedged risk for which the effective interest method is used is amortized to profit or loss from the date of hedge accounting is discontinued. The adjustment is based on a recalculated effective interest rate at the date amortization begins and will be amortized fully by maturity of the financial instrument.

**Provisions**

Provisions, including those arising from reserve for default losses, reserve for employee benefits and reserve for guarantees, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Bank Notes Payable**

The notes payable issued by the Group are measured at amortized cost using the effective interest method.

To follow the risk management policy of the Group, part of the bank notes payable with fixed interest rate were hedged by using interest rate swaps.

**Revenue Recognition**

a. Dividend and interest income

   Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably.

   Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

   When the loans become past due and are considered uncollectible, the principal and interest receivable are transferred to delinquent loan accounts, and the accrual of interest income is stopped. Interest income will be recognized when the delinquent interest is collected. If the repayment of loan is extended under an agreement, the related interest should be recognized as deferred revenue, classified into other liability and recognized as income when collected.

b. Service fee

   Service revenue and real estate management service revenue are recognized at once after providing loans or other services. If the service revenue belongs to several significant items, it is recognized when the significant items accomplished, such as the service revenue which the lead arranger bank of syndication loan received. If the service revenue is for further loan service and of significant amount, it is allocated during the period of the service or included in the base of calculation the effective interest rate of loans and receivables.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Contingent rents arising under operating leases are recognized as income in the period in which they are incurred.

b. The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

Minimum lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group’s general policy on borrowing costs. Contingent rents are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Retirement Benefit Costs**

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method. All actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheets represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognized past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Curtailment or settlement gains or losses on the defined benefit plan are recognized when the curtailment or settlement occurs.

The Group provides employees with high-yield savings account. The premium interest rate applies to a fixed amount of principal and the interest is paid to present employees (within employment and retirement) and retired employees. The difference between the premium rate and the market rate is classified as employee benefits.

According to the "Regulations Governing the Preparation of Financial Reports by Public Banks" Rule No. 28, the premium interest resulting from the yield between the premium rate and the general market rate shall immediately be actuarially calculated based on the FSC-recognized IAS 19 when employees retire. However, if there are authorized regulations from the government regarding the actuarial assumption parameters, the regulations shall prevail.

**Taxation**

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

a. Current tax

   According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

   Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

   Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

   Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

   The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

   Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Held-to-maturity financial assets

Management has reviewed the Group's held-to-maturity financial assets in light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity.

b. Income taxes

As of December 31, 2014 and 2013, the carrying amount of deferred tax assets in relation to unused tax losses was $3,186,032 thousand and $3,107,599 thousand, respectively. Due to the unpredictability of future profit streams. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

c. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

d. Fair value of financial instruments

As described in Note 34, the Group's management uses its judgment in selecting an appropriate valuation technique for financial instruments that do not have quoted market price in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions were based on quoted market rates adjusted for specific features of the instruments. Debt instruments were valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of listed equity instruments traded in emerging market and unlisted equity instruments was based on the analysis in relation to the financial position and the operation results of investees, recent transaction prices, prices of same equity instruments not quoted in active markets, quoted prices of similar instruments in active markets, valuation multiples of comparable entities, including assumptions based on unobservable market prices or rates. Detailed information about the key assumptions used in the determination of the fair value of financial instruments is provided in Note 34. The Group's management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

e. Recognition and measurement of defined benefit plans

Accrued pension liabilities and the resulting pension expense under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and long-term average future salary increase. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

## 6. CASH AND CASH EQUIVALENTS/DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS

a. Cash and cash equivalents

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Cash on hand | $ 10,692,815 | $ 9,926,224 |
| Checks for clearing | 10,768,805 | 7,352,696 |
| Due from banks | 16,633,022 | 28,147,001 |
| Foreign currencies on hand | 1,491,555 | 1,376,093 |
| | $ 39,586,197 | $ 46,802,014 |

b. Due from Central Bank and call loans to banks

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Call loans to banks | $ 42,642,036 | $ 26,397,850 |
| Reserve for checking account | 14,947,195 | 16,438,133 |
| Reserve for demand account | 37,064,353 | 36,030,401 |
| Reserve for foreign deposit | 277,004 | 210,314 |
| Others | 14,347,106 | 7,750,383 |
| | $ 109,277,694 | $ 86,827,081 |

## 7. FINANCIAL INSTRUMENTS AT FVTPL

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Financial assets at FVTPL | | |
| Financial assets designated as at FVTPL | | |
| Interest rate-linked combination instruments | $ 2,368,757 | $ 3,676,994 |
| Derivative financial assets (not applying hedge accounting) | | |
| Forward exchange contracts | 276,459 | 210,295 |

(Continued)

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Interest rate swaps | $ 414,827 | $ 354,931 |
| Cross-currency swaps | 1,602,811 | 522,828 |
| Currency swaps | 2,150,231 | 769,711 |
| Currency call option premium | 1,376,265 | 288,133 |
| Futures | 24,381 | 36,433 |
| Non-derivative financial assets | | |
| Investment in bills | 27,002,360 | 37,873,387 |
| Domestic listed stock | 26,740 | - |
| Mutual funds | 308,488 | 277,510 |
| Government bonds | 2,013,639 | 14,508,895 |
| Overseas corporate bonds and bank notes | 260,779 | 1,482,356 |
| | 35,456,980 | 56,324,479 |
| | $ 37,825,737 | $ 60,001,473 |

(Concluded)

The par values of bonds and notes provided for transactions with repurchase agreements were $1,965,500 thousand and $1,918,100 thousand as of December 31, 2014 and 2013, respectively.

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Financial liabilities designated as at FVTPL | | |
| Unsecured U.S. dollar-denominated ordinated bank notes | $ 15,936,642 | $ - |
| Derivative financial liabilities (not applying hedge accounting) | | |
| Forward contracts | 387,981 | 201,282 |
| Currency swaps | 1,983,568 | 424,259 |
| Cross-currency swaps | 821,641 | 456,673 |
| Interest rate swaps | 352,267 | 345,012 |
| Currency put option premium | 1,376,264 | 288,138 |
| | 4,921,721 | 1,715,364 |
| | $ 20,858,363 | $ 1,715,364 |

The unsecured U.S. dollar-denominated ordinated bank notes issued by the Group are as follows:

a. Note A, 20-year term, US$140,000 thousand, issued at par value with no interest payment, callable 2 years after issue date with interest payment, maturity: 2034.12.19.

b. Note B, 20-year term, US$100,000 thousand, issued at par value with no interest payment, callable 3 years after issue date with interest payment, maturity: 2034.12.18.

c. Note C, 20-year term, US$260,000 thousand, issued at par value with no interest payment, callable 5 years after issue date with interest payment, maturity: 2034.12.17.

The Group entered into derivative contracts during the years ended December 31, 2014 and 2013 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of the Group is to minimize risks due to changes in fair value and cash flows.

The nominal principal amounts of outstanding derivative contracts as of December 31, 2014 and 2013 were as follows:

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Currency swaps | $ 309,040,381 | $ 176,548,787 |
| Currency options | 202,233,473 | 112,551,967 |
| Forward exchange contracts | 31,099,212 | 27,782,023 |
| Interest rate swaps and asset-swap options | 295,861,475 | 260,711,989 |
| Cross-currency swaps | 67,005,092 | 66,669,813 |

## 8. RECEIVABLES, NET

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Accounts receivable | $ 10,774,104 | $ 10,590,521 |
| Revenue receivable | 198,582 | 202,082 |
| Interest receivable | 3,972,433 | 2,469,828 |
| Acceptance receivable | 4,692,955 | 5,529,732 |
| Credit card receivable | 1,533,242 | 1,186,565 |
| Settlement price | 351,212 | 296,192 |
| Settlement price receivable | 534,508 | 220,138 |
| Other receivables | 48,145 | 88,686 |
| Less allowance for receivables | (295,867) | (375,010) |
| | $ 21,809,314 | $ 20,208,734 |

Please refer to Note 9 for the movements of allowance for receivables.

## 9. LOANS, NET

a. The details of loans are as follows:

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Negotiated | $ 6,748,219 | $ 8,743,434 |
| Overdraft | 1,592,759 | 1,536,343 |
| Short-term loans | 354,377,923 | 297,351,517 |
| Receivable amount for margin loans | 309,223 | 301,498 |
| Medium-term loans | 391,379,873 | 344,793,909 |
| Long-term loans | 516,968,169 | 499,989,138 |
| Delinquent loans | 2,661,817 | 3,661,795 |
| | 1,274,037,983 | 1,156,377,634 |
| Less allowance for loan losses | (14,671,234) | (13,510,469) |
| | $ 1,259,366,749 | $ 1,142,867,165 |

b. Movements of allowance for receivables and loans are as follows:

| | Year Ended December 31, 2014 | | | |
|---|---|---|---|---|
| | Receivables | Loans | Other Financial Assets | Total |
| Balance, January 1, 2014 | $ 375,010 | $ 13,510,469 | $ 44,385 | $ 13,929,864 |
| Recovery of loans written off | 3,107 | 2,342,831 | 11,695 | 2,357,633 |
| Provision (reserve) for loan losses | (61,296) | (1,044,962) | 678 | (1,105,580) |
| Loans written off | (22,482) | (236,816) | (14,982) | (274,280) |
| Others | 1,528 | 99,712 | - | 101,240 |
| Balance, December 31, 2014 | $ 295,867 | $ 14,671,234 | $ 41,776 | $ 15,008,877 |

| | Year Ended December 31, 2013 | | | |
|---|---|---|---|---|
| | Receivables | Loans | Other Financial Assets | Total |
| Balance, January 1, 2013 | $ 373,980 | $ 13,516,700 | $ 23,731 | $ 13,914,411 |
| Recovery of loans written off | 12,379 | 2,934,806 | 11,002 | 2,958,187 |
| Provision (reserve) for loan losses | 17,447 | (670,161) | 21,916 | (630,798) |
| Loans written off | (29,549) | (2,302,186) | (12,264) | (2,343,999) |
| Others | 753 | 31,310 | - | 32,063 |
| Balance, December 31, 2013 | $ 375,010 | $ 13,510,469 | $ 44,385 | $ 13,929,864 |

The delinquent loans of which the accrual of interest income was stopped internally as of December 31, 2014 and 2013 were $2,661,817 thousand and thousand $3,661,795 thousand, respectively. The interest income on delinquent loans not accrued in 2014 and 2013 was $76,660 thousand and $105,460 thousand, respectively.

The Group did not write off any loans without legal claim process in 2014 and 2013.

c. Details of provision for loan losses for the years ended December 31, 2014 and 2013 were as follows:

| | 2014 | 2013 |
|---|---|---|
| Reserve for receivable and loan (including delinquent loan) losses | $ (1,105,580) | $ (630,798) |
| Provision (reserve) for guarantees | 221,496 | (6,975) |
| | $ (884,084) | $ (637,773) |

d. Details of receivables and allowance for loan accounts for the years ended December 31, 2014 and 2013 were as follows:

Receivables

| Item | | Total Receivable December 31 2014 | Total Receivable December 31 2013 |
|---|---|---|---|
| Objective evidence of impairment | Individual assessment of impairment | $ 241,914 | $ 274,622 |
| | Combined assessment of impairment | 36,960 | 52,214 |
| None objective evidence of impairment | Combined assessment of impairment | 21,815,043 | 20,250,401 |
| Total | | $ 22,093,917 | $ 20,577,237 |

| Item | | Total Allowance December 31 2014 | Total Allowance December 31 2013 |
|---|---|---|---|
| Objective evidence of impairment | Individual assessment of impairment | $ 202,801 | $ 202,569 |
| | Combined assessment of impairment | 14,814 | 22,368 |
| None objective evidence of impairment | Combined assessment of impairment | 78,252 | 150,073 |
| Total | | $ 295,867 | $ 375,010 |

Note: The amount of receivable did not include the amount of allowance for receivables and adjustment for discount (premium).

Loans

| Item | | Total Loans December 31 2014 | Total Loans December 31 2013 |
|---|---|---|---|
| Objective evidence of impairment | Individual assessment of impairment | $ 12,645,129 | $ 17,986,505 |
| | Combined assessment of impairment | 2,350,018 | 2,642,654 |
| None objective evidence of impairment | Combined assessment of impairment | 1,259,042,836 | 1,135,748,475 |
| Total | | $ 1,274,037,983 | $ 1,156,377,634 |

| Item | | Total Allowance December 31 2014 | Total Allowance December 31 2013 |
|---|---|---|---|
| Objective evidence of impairment | Individual assessment of impairment | $ 3,737,955 | $ 4,627,909 |
| | Combined assessment of impairment | 644,657 | 723,090 |
| None objective evidence of impairment | Combined assessment of impairment | 10,288,622 | 8,159,470 |
| Total | | $ 14,671,234 | $ 13,510,469 |

Note: The amount of loans did not include the amount of allowance for loans and adjustment for discount (premium).

## 10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Domestic quoted stocks | $ 2,134,508 | $ 1,767,564 |
| Government bonds | 31,332,880 | 24,096,886 |
| Corporate bonds | 4,944,250 | 2,548,023 |
| Bank notes | 6,590,444 | 9,322,924 |
| Bonds issued by international organizations | 188,345 | 148,714 |
| Investment in bills | 955,181 | - |
| | $ 46,145,608 | $ 37,884,111 |

The par values of bonds provided for transactions with repurchase agreements were $2,315,300 thousand and $2,338,400 thousand as of December 31, 2014 and 2013, respectively.

Government bonds placed as deposits in courts as of December 31, 2014 and 2013 were $662,500 thousand and $764,900 thousand, respectively. Government bonds placed as operating deposits as of December 31, 2014 and 2013 were both $290,000 thousand.

Refer to Note 37 for information relating to available-for-sale financial assets pledged as security.

## 11. HELD-TO-MATURITY FINANCIAL ASSETS

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Investment in bills | $ 169,547,799 | $ 215,841,649 |
| Bank notes | 2,111,859 | 3,936,600 |
| Corporate bonds | 11,977,401 | 7,210,933 |
| | $ 183,637,059 | $ 226,989,182 |

The overseas branches' bonds as collateral for operations as of December 31, 2014 and 2013 were $379,764 thousand and $238,183 thousand, respectively.

Certificate of deposits placed as reserves for clearing at the Central Bank were $41,000,000 thousand and $37,000,000 thousand as of December 31, 2014 and 2013, respectively.

Refer to Note 37 for information relating to held-to-mature financial assets pledged as security.

## 12. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Derivative financial assets under hedge accounting | | |
| Fair value hedges - interest rate swaps | $ 27,629 | $ 62,494 |

The Group used interest rate swaps to minimize its exposure to changes in the fair value of its fixed-rate borrowings by entering into fixed-to-floating interest rate swap contracts. The interest swaps and the corresponding borrowings have the same terms, and management believes the interest rate swaps are highly effective hedging instruments. The nominal principal amount of the outstanding interest rate swaps of the Group at the end of 2014 and 2013 were $7,200,000 thousand and $2,000,000 thousand.

The fixed-to-floating interest swaps were designated and effective fair value hedge instruments. During 2014 and 2013, the swaps were 100% effective in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the fixed-rate borrowings was adjusted by $14,938 thousand and $59,818 thousand as of December 31, 2014 and 2013, respectively; these amounts were included in profit or loss at the same time that the fair value of the interest rate swap was included in profit or loss.

The information of hedging transaction was as follows:

a. Hedging type: Fair value hedging.

b. Hedging objective: To minimize risks of the Group from the variation of fair value due to fluctuation of interest rate, by converting fixed-rate note to floating-rate note.

c. Hedging method: By signing interest rate swap contract.

d. Hedging effect: 7 hedging trades were made in 2014. The actual offset result is considered highly effective since the variation of the fair value of the hedged instrument and of the hedging instrument is within 80%-125%, which has met the hedging accounting criterion suggested in IFRSs. The realized gain of fair-value hedging was $72,085 thousand and $43,921 thousand, accounted as other non-interest net income and losses, for 2014 and 2013, respectively.

## 13. FINANCIAL ASSETS CARRIED AT COST

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Domestic unquoted common stocks | $ 4,167,009 | $ 4,181,203 |

Management believed that the above unlisted equity investments held by the Group, whose fair value cannot be reliably measured due to the range of reasonable fair value estimates was so significant; therefore they were measured at cost less impairment at the end of reporting period.

Part of the investees made capital reduction in 2013. The Group recognized $517,231 thousand as the deduction of investment cost and $73,171 thousand as dividend income (which was consisted in other miscellaneous net income)

## 14. BOND INVESTMENT WITH NO ACTIVE MARKET

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Preferred stock - Taiwan High Speed Rail Co., Ltd. | $ 1,300,000 | $ 1,300,000 |
| Beneficiary securities and asset based securities | 138,634 | 224,114 |
| Corporate bonds and bank notes | 1,961,708 | 2,287,409 |
| | $ 3,400,342 | $ 3,811,523 |

## 15. OTHER MISCELLANEOUS FINANCIAL ASSETS

| | December 31 2014 | December 31 2013 |
|---|---|---|
| Inward remittance | $ 46,967 | $ 22,056 |
| Delinquent loans reclassified from other accounts (excluding loans) | 105,811 | 112,919 |
| Time deposits with original maturity more than 3 months | 71,044,309 | 31,189,363 |
| Less allowance for loan losses | (41,776) | (44,385) |
| | $ 71,155,311 | $ 31,279,953 |

The market rate of time deposits with original maturity more than 3 months were 0.93%-5.30% and 1.60%-5.60% in 2014 and 2013, respectively. Refer to Note 37 for information relating to other miscellaneous financial assets pledged as security.

Please refer to Note 9 for the movement of allowance for delinquent loans reclassified from other accounts (excluding loans).

## 16. PROPERTY AND EQUIPMENT

| | Freehold Land | Buildings | Machinery Equipment | Transportation Equipment | Miscellaneous Equipment | Leasehold Improvement | Leased Assets | Construction in Progress and Prepayment for Building and Equipment | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | |
| Balance at January 1, 2014 | $ 17,488,298 | $ 8,777,579 | $ 5,286,279 | $ 559,611 | $ 1,455,343 | $ 912,423 | $ 168,860 | $ 39,723 | $ 34,688,116 |
| Additions | - | 61,681 | 273,174 | 23,181 | 38,731 | 22,491 | - | 147,845 | 567,103 |
| Disposals | - | (995) | (175,064) | (30,914) | (28,744) | (46,634) | - | - | (282,351) |
| Reclassification as held for sale | (80,668) | 16,163 | 81,655 | 326 | 6,767 | 16,430 | - | (133,639) | (92,966) |
| Effect of foreign currency exchange differences | - | - | 5,205 | 650 | 4,168 | 4,836 | - | 1,735 | 16,594 |
| Balance at December 31, 2014 | $ 17,407,630 | $ 8,854,428 | $ 5,471,249 | $ 552,854 | $ 1,476,265 | $ 909,546 | $ 168,860 | $ 55,664 | $ 34,896,496 |
| Accumulated depreciation and impairment | | | | | | | | | |
| Balance at January 1, 2014 | $ - | $ 3,650,368 | $ 4,592,058 | $ 462,089 | $ 1,279,711 | $ 717,943 | $ 50,489 | $ - | $ 10,752,658 |
| Depreciation expense | - | 173,496 | 265,194 | 27,763 | 49,587 | 55,780 | 18,762 | - | 590,582 |
| Disposals | - | (995) | (172,832) | (30,776) | (28,276) | (46,626) | - | - | (279,505) |
| Reclassification | - | (1,688) | - | - | - | - | - | - | (1,688) |
| Effect of foreign currency exchange differences | - | - | 4,389 | 463 | 3,729 | 3,024 | - | - | 11,605 |
| Balance at December 31, 2014 | $ - | $ 3,821,181 | $ 4,688,809 | $ 459,539 | $ 1,304,751 | $ 730,121 | $ 69,251 | $ - | $ 11,073,652 |
| Carrying amounts at December 31, 2014 | $ 17,407,630 | $ 5,033,247 | $ 782,440 | $ 93,315 | $ 171,514 | $ 179,425 | $ 99,609 | $ 55,664 | $ 23,822,844 |
| Cost | | | | | | | | | |
| Balance at January 1, 2013 | $ 17,605,194 | $ 8,688,891 | $ 5,174,680 | $ 564,015 | $ 1,440,790 | $ 846,238 | $ 168,275 | $ 5,219 | $ 34,493,302 |
| Additions | - | 69,849 | 145,544 | 20,636 | 47,309 | 54,423 | 585 | 129,998 | 468,344 |
| Disposals | - | (1,499) | (64,873) | (29,789) | (34,617) | (1,624) | - | - | (132,402) |
| Reclassification as held for sale | (116,896) | 20,338 | 33,352 | 4,790 | 1,499 | 11,586 | - | (95,454) | (140,785) |
| Effect of foreign currency exchange differences | - | - | (2,424) | (41) | 362 | 1,800 | - | (40) | (343) |
| Balance at December 31, 2013 | $ 17,488,298 | $ 8,777,579 | $ 5,286,279 | $ 559,611 | $ 1,455,343 | $ 912,423 | $ 168,860 | $ 39,723 | $ 34,688,116 |
| Accumulated depreciation and impairment | | | | | | | | | |
| Balance at January 1, 2013 | $ - | $ 3,499,068 | $ 4,355,396 | $ 464,509 | $ 1,265,775 | $ 657,767 | $ 31,750 | $ - | $ 10,274,265 |
| Depreciation expense | - | 172,411 | 303,546 | 27,383 | 48,259 | 60,677 | 18,739 | - | 631,015 |
| Disposals | - | (1,499) | (64,677) | (29,789) | (34,578) | (1,624) | - | - | (132,167) |
| Reclassification | - | (19,612) | - | - | - | - | - | - | (19,612) |
| Effect of foreign currency exchange differences | - | - | (2,207) | (14) | 255 | 1,123 | - | - | (843) |
| Balance at December 31, 2013 | $ - | $ 3,650,368 | $ 4,592,058 | $ 462,089 | $ 1,279,711 | $ 717,943 | $ 50,489 | $ - | $ 10,752,658 |
| Carrying amounts at December 31, 2013 | $ 17,488,298 | $ 5,127,211 | $ 694,221 | $ 97,522 | $ 175,632 | $ 194,480 | $ 118,371 | $ 39,723 | $ 23,935,458 |

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

| | |
|---|---|
| Building | |
| Main buildings | 20-60 years |
| Air-conditioning | 5-10 years |
| Machinery equipment | 4-16 years |
| Transportation equipment | 2-10 years |
| Miscellaneous equipment | 3-10 years |
| Leasehold improvement | 5 years |
| Leased assets | 9 years |

## 17. INVESTMENT PROPERTIES

| | Completed Investment Property |
|---|---|
| Cost | |
| Balance at January 1, 2014 | $ 11,203,179 |
| Reclassification | 82,415 |
| Additions | 133 |
| Disposals | (179) |
| Balance at December 31, 2014 | $ 11,285,548 |
| Accumulated depreciation and impairment | |
| Balance at January 1, 2014 | $ 265,311 |
| Reclassification | 1,688 |
| Depreciation expense | 6,288 |
| Disposals | (179) |
| Balance at December 31, 2014 | $ 273,108 |
| Carrying amounts at December 31, 2014 | $ 11,012,440 |
| Cost | |
| Balance at January 1, 2013 | $ 11,064,181 |
| Reclassification | 138,802 |
| Additions | 470 |
| Disposals | (274) |
| Balance at December 31, 2013 | $ 11,203,179 |

(Continued)

| Accumulated depreciation and impairment | Completed Investment Property |
|---|---|
| Balance at January 1, 2013 | $ 239,077 |
| Reclassification | 19,612 |
| Depreciation expense | 6,896 |
| Disposals | (274) |
| Balance at December 31, 2013 | $ 265,311 |
| Carrying amounts at December 31, 2013 | $ 10,937,868 |

(Concluded)

The investment properties held by the Group were depreciated over their estimated useful lives, using the straight-line method.

| | |
|---|---|
| Main buildings | 20-60 years |
| Air-conditioning | 5-10 years |

The fair values of Group's investment properties as of December 31, 2014 and 2013 were $15,832,200 thousand and $15,455,598 thousand, respectively. The fair value was arrived at on the basis of a valuation carried out at that date by Messer's R&P, independent qualified professional valuers not connected to the Group. The fair value valuation was performed by independent qualified professional valuers; management of the Group used the valuation model that market participants would use in determining the fair value/the valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The rental incomes and direct operating expenses generated by the investment properties for 2014 and 2013 were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Rental incomes | $ 178,064 | $ 159,005 |
| Direct operating expenses | $ 71,704 | $ 72,926 |

## 18. INTANGIBLE ASSES

| | Computer Software |
|---|---|
| Balance at January 1, 2014 | $ 80,006 |
| Additions | 500,377 |
| Amortization | (118,123) |
| Reclassification | 10,552 |
| Effect of foreign currency exchange differences | 524 |
| Balance at December 31, 2014 | $ 473,336 |
| Balance at January 1, 2013 | $ 86,991 |
| Additions | 20,514 |

(Continued)

| | Computer Software |
|---|---|
| Amortization | $ (29,631) |
| Reclassification as held for sale | 1,984 |
| Effect of foreign currency exchange differences | 148 |
| Balance at December 31, 2013 | $ 80,006 |

(Concluded)

The intangible assets mentioned above were amortized on a straight-line basis over the estimated useful life (3-5 years).

## 19. OTHER ASSETS

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Refundable deposits | $ 164,299 | $ 99,610 |
| Assumed collateral and residuals | 23,462 | 26,835 |
| Less: Accumulated impairment | (23,462) | (26,835) |
| Prepayments | 232,602 | 199,079 |
| Others | 807 | 768 |
| | $ 397,708 | $ 299,457 |

## 20. DUE TO BANKS AND CENTRAL BANK

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Due to Central Bank | $ 23,665 | $ 24,598 |
| Due to banks | 18,244,623 | 9,256,450 |
| Bank overdraft | 1,033,239 | 3,355,035 |
| Call loans from banks | 101,369,221 | 109,612,896 |
| Deposits transferred from the Postal Bureau | 3,484,434 | 4,580,053 |
| | $ 124,155,182 | $ 126,829,032 |

## 21. PAYABLES

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Checks issued to payees for clearing | $ 14,689,756 | $ 11,221,772 |
| Accounts payable | 2,191,042 | 1,946,478 |
| Accrued expenses | 2,370,021 | 2,018,552 |
| Interest payable | 2,126,358 | 1,752,343 |
| Acceptances | 4,736,264 | 5,612,071 |
| Others | 3,391,727 | 2,682,672 |
| | $ 29,505,168 | $ 25,233,888 |

## 22. DEPOSITS

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Checking deposit | $ 37,600,944 | $ 35,960,967 |
| Demand deposit | 324,343,767 | 300,773,802 |
| Time deposit | 295,453,930 | 271,290,788 |
| Negotiable certificates of deposit | 7,892,100 | 6,204,600 |
| Savings deposit | 786,643,556 | 757,816,807 |
| Remittances | 1,034,988 | 843,135 |
| | $ 1,452,969,285 | $ 1,372,890,099 |

## 23. BANK NOTES PAYABLE

The Bank has issued bank notes to enhance its capital adequacy ratio and raise medium to long-term operating funds. The Bank issued ordinated and subordinated bank notes are as follows:

The Bank issued $5,000 million subordinated bank notes-97-1 with 7-year terms on May 19, 2008.

The Bank issued $8,350 million subordinated bank notes-97-2 with 7-year terms on December 15, 2008.

The Bank issued $5,000 million subordinated bank notes-98-1 with 7-year terms on September 15, 2009.

The Bank issued $5,000 million perpetual subordinated bank notes-99-1 on June 29, 2010.

The Bank issued $3,300 million subordinated bank notes-100-1 on March 11, 2011, divided into Financial Debentures A $2,200 million with 7-year terms and Financial Debenture B $1,100 million with 10-year terms.

The Bank issued $6,700 million subordinated bank notes-100-2 with 10-year terms on April 18, 2011.

The Bank issued RMB1,000 million ordinated bank notes-102-1 with 3-year terms on May 29, 2013.

The Bank issued $2,200 million subordinated bank notes A 103-1 with 7-year terms on April 16, 2014.

The Bank issued $5,300 million subordinated bank notes B 103-1 with 10-year terms on April 16, 2014.

The Bank issued $2,500 million subordinated bank notes C 103-1 with 10-year terms on April 16, 2014.

The outstanding balance and details of subordinated bank notes are as follows:

| | December 31 | |
|---|---|---|
| **Bank Note, Interest Rate and Maturity Date** | **2014** | **2013** |
| Hedged financial liabilities at fair value | | |
| 97-1, 7-year term, interest payable annually, interest rate 3.10%, maturity date: May 19, 2015 | $ 2,000,000 | $ 2,000,000 |
| 103-1 Note A, 7-year term, interest payable annually, interest rate 1.45%, maturity date: April 16, 2021 | 2,200,000 | - |

(Continued)

| Bank Note, Interest Rate and Maturity Date | December 31 2014 | December 31 2013 |
|---|---|---|
| 103-1 Note B, 10-year term, interest payable annually, interest rate 1.63%, maturity date: April 16, 2024 | $ 3,000,000 | $ - |
| Valuation adjustment | 14,938 | 59,818 |
| | 7,214,938 | 2,059,818 |
| Non-hedged bank notes payable | | |
| 96-1, 7-year term, interest payable annually, determined at the 90-day commercial paper fixing rate in the secondary market plus 0.35%, provided by Reuters Limited, maturity date: September 26, 2014 | - | 5,000,000 |
| 97-1, 7-year term, interest payable annually, interest rate 3.10%, maturity date: May 19, 2015 | 3,000,000 | 3,000,000 |
| 97-2, 7-year terms, interest payable annually, interest rate 3.05%, maturity date: December 15, 2015 | 8,350,000 | 8,350,000 |
| 98-1, 7-year terms, interest payable annually, interest rate 2.30%, maturity date: September 15, 2016 | 5,000,000 | 5,000,000 |
| 99-1, No maturity date, interest payable annually, interest rate from first to tenth year is 3.15%, after tenth year is 4.15% | 5,000,000 | 5,000,000 |
| 100-1 Note A, 7-year terms, interest payable annually, interest rate 1.65%, maturity date: March 11, 2018 | 2,200,000 | 2,200,000 |
| 100-1 Note B, 10-year terms, interest payable annually, interest rate 1.72%, maturity date: March 11, 2021 | 1,100,000 | 1,100,000 |
| 100-2, 10-year terms, interest payable annually, determined at the 90-day commercial paper fixing rate in the secondary market plus 0.20%, provided by Reuters Limited, maturity date: April 18, 2021 | 6,700,000 | 6,700,000 |
| 102-1, 3-year terms, interest payable annually, interest rate 2.90%, maturity date: May 29, 2016 | 5,099,000 | 4,913,000 |
| 103-1 Note B, 10-year terms, interest payable annually, interest rate 1.63%, maturity date: April 16, 2024 | 2,300,000 | - |
| 103-1 Note C, 10-year terms, interest payable annually, determined at the 90-day commercial paper fixing rate in the secondary market plus 0.45%, provided by Reuters Limited, maturity date: April 16, 2024 | 2,500,000 | - |
| | 41,249,000 | 41,263,000 |
| | $ 48,463,938 | $ 43,322,818 |

(Concluded)

The Group engaged in derivative transactions as hedging tools for the 97-1, 103-1 Note A and 103-1 Note B fixed interest rate bank notes to avoid fair value risks due to changes in interest rates. The interest rate swaps nominal principal were accounted as hedging derivative financial assets. Please refer to Note 12.

## 24. OTHER FINANCIAL LIABILITIES

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Principal of structured products | $ 319,930 | $ 385,500 |
| Appropriations for loan fund | 257,920 | 205,511 |
| Lease payable | 46,566 | 81,017 |
| | $ 624,416 | $ 672,028 |

The principal of structured products were the time deposits which linked to currency options. The related income of structured products was determined by the target interest rates.

## 25. OTHER LIABILITIES

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Unearned revenue | $ 918,726 | $ 653,298 |
| Guarantee deposits | 1,998,196 | 1,531,182 |
| Deferred income | 39,714 | 39,627 |
| | $ 2,956,636 | $ 2,224,107 |

## 26. PROVISIONS

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Reserve for employee benefits | $ 3,572,973 | $ 3,443,587 |
| Reserve for guarantee liabilities | 461,706 | 229,614 |
| | $ 4,034,679 | $ 3,673,201 |

| | Reserve for Guarantee Liabilities |
|---|---|
| Balance, January 1, 2014 | $ 229,614 |
| Provision | 221,496 |
| Transfer from allowance for loan losses | 10,000 |
| Exchange differences | 596 |
| Balance, December 31, 2014 | $ 461,706 |
| Balance, January 1, 2013 | $ 237,795 |
| Reverse | (6,975) |
| Bad debts written off | (1,050) |
| Transfer to allowance for loan losses | (410) |
| Exchange differences | 254 |
| Balance, December 31, 2013 | $ 229,614 |

a. Refer to Note 27 for information of reserve for employee benefits.

b. Under guidelines of Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, reserve for guarantees was allocated based on the status of the loan collaterals and the length of time overdue.

## 27. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The Group adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Group contribute amounts equal to 10% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Group of Taiwan in the committee’s name. The plan assets are invested in domestic (foreign) equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund the return generated by employees' pension contribution should not be below the interest rate for a 2-year time deposit with local banks.

The actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out by qualifying actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Discount rates | 1.75% | 1.75% |
| Expected return on plan assets | 1.75% | 1.75% |
| Expected rates of salary increase | 2.00% | 2.00% |

The assessment of the overall expected rate of return was based on historical return trends and analysts’ predictions of the market for the asset over the life of the related obligation, by reference to the aforementioned use of the plan assets and the impact of the related minimum return.

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Current service cost | $ 260,542 | $ 267,705 |
| Interest cost | 146,013 | 125,323 |
| Expected return on plan assets | (111,810) | (95,675) |
| | $ 294,745 | $ 297,353 |

Actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2014 and 2013 were $211,408 thousand and $168,232 thousand, respectively. The cumulative amount of actuarial gains and losses recognized in other comprehensive income as of December 31, 2014 and 2013 was $597,998 thousand and $386,590 thousand, respectively.

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

| | December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Present value of funded defined benefit obligation | $ 8,813,026 | $ 8,552,285 |
| Fair value of plan assets | (6,567,714) | (6,385,740) |
| Deficit | 2,245,312 | 2,166,545 |
| Others | 9,045 | 8,747 |
| Net liability arising from defined benefit obligation | $ 2,254,357 | $ 2,175,292 |

Movements in the present value of the defined benefit obligations were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Opening defined benefit obligation | $ 8,552,285 | $ 8,514,844 |
| Current service cost | 260,542 | 267,705 |
| Interest cost | 146,013 | 125,323 |
| Actuarial losses | 292,876 | 186,360 |
| Liabilities extinguished on settlements | (297,681) | (325,545) |
| Benefits paid | (141,009) | (216,402) |
| Closing defined benefit obligation | $ 8,813,026 | $ 8,552,285 |

Movements in the fair value of the plan assets were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Opening fair value of plan assets | $ 6,385,740 | $ 6,253,350 |
| Expected return on plan assets | 111,810 | 95,675 |
| Actuarial losses | 38,167 | (16,329) |
| Contributions from the employer | 470,687 | 594,991 |
| Benefits paid | (141,009) | (216,402) |
| Assets distributed on settlements | (297,681) | (325,545) |
| Closing fair value of plan assets | $ 6,567,714 | $ 6,385,740 |

For the years ended December 31, 2014 and 2013, the actual returns on plan assets were $149,977 thousand and $79,346 thousand, respectively.

The major categories of plan assets at the end of the reporting period for each category were disclosed based on the information announced by Bureau of Labor Funds, Ministry of Labor:

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Cash | 19.12 | 22.86 |
| Short-term bills | 1.98 | 4.10 |
| Bonds | 11.92 | 9.37 |
| Fixed revenue | 14.46 | 18.11 |
| Equity securities | 49.69 | 44.77 |
| Others | 2.83 | 0.79 |
| | 100.00 | 100.00 |

The Group chose to disclose the history of experience adjustments as the amounts determined for each accounting period prospectively from the date of transition to IFRSs (January 1, 2012):

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Present value of defined benefit obligation | $ 8,813,026 | $ 8,552,285 |
| Fair value of plan assets | $ 6,567,714 | $ 6,385,740 |
| Deficit | $ 2,245,312 | $ 2,166,545 |
| Experience adjustments on plan liabilities | $ 292,876 | $ 186,969 |
| Experience adjustments on plan assets | $ (38,167) | $ 16,329 |

The Group expects to make a contribution of $388,800 thousand and $424,200 thousand, respectively to the defined benefit plans during the annual period beginning after 2014 and 2013.

c. Plan of high-yield savings account for employee

The Group has the obligation to pay premium interest on the high-yield savings account of its present employees and retired employees. Such obligation is recognized based on its internal guidelines in the Rules of Employee Preferential Deposit for Retired Employees. Refer to Note 29 for related expense.

1) Reconciliation of assets and liabilities at the end of the reporting period with the present value of defined benefit obligation and the fair value of plan assets was as follows:

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Present value of defined benefit obligation | $ 1,318,616 | $ 1,268,295 |
| Less: Fair value of defined benefit plan assets | - | - |
| Assets and liabilities at the end of the reporting period | $ 1,318,616 | $ 1,268,295 |

2) Analysis of defined benefit obligation

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| All or part of defined benefit obligation contributed | $ - | $ - |
| Defined benefit obligation not contributed | 1,318,616 | 1,268,295 |
| Total | $ 1,318,616 | $ 1,268,295 |

3) Movements of the present value of defined benefit obligation

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Balance, January 1 | $ 1,268,295 | $ 1,276,935 |
| Interest cost | 48,173 | 48,522 |
| Actuarial gains and losses | 262,182 | 201,027 |
| Benefits paid | (260,033) | (258,189) |
| Balance, December 31 | $ 1,318,617 | $ 1,268,295 |

4) Movements of the fair value of plan assets

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Balance, January 1 | $ - | $ - |
| Contribution by employers | 260,033 | 258,189 |
| Benefits paid | (260,033) | (258,189) |
| Balance, December 31 | $ - | $ - |

5) Details of gains and losses recognized in expenses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Interest cost | $ 48,173 | $ 48,522 |
| Actuarial gains and losses | 262,182 | 201,027 |
| | $ 310,355 | $ 249,549 |

6) Main actuarial assumptions

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Discount rate of high-yield savings account for employee | 4.00% | 4.00% |
| Return rate of funds deposited | 2.00% | 2.00% |
| Account balance decrease rate per year | 1.00% | 1.00% |
| Probability of future high-yield savings account system change | 50.00% | 50.00% |
| Mortality rate | Based on Taiwan Life Insurance Industry Mortality Tables | Based on Taiwan Life Insurance Industry Mortality Tables |
| Rate provided to ordinary clients for similar deposit | 1.39%-1.45% | 0.32%-1.45% |

## 28. EQUITY

a. Share capital

Common stock

| | December 31 2014 | December 31 2013 |
|---|---|---|
| Numbers of shares authorized (in thousands) | 8,000,000 | 8,000,000 |
| Shares authorized | $ 80,000,000 | $ 80,000,000 |
| Number of shares issued and fully paid (in thousands) | 7,904,040 | 7,749,059 |
| Shares issued | $ 79,040,404 | $ 77,490,592 |

Fully paid ordinary shares, which have a par value of $10, carry one vote per share and carry a right to dividends.

As of January 1, 2013, the Bank's authorized and registered capital was $80,000,000 thousand divided into 8,000,000 thousand shares at $10 par value; the total paid-in capital was $72,421,114 thousand. In August 2014 and 2013, the Bank had resolved capitalization of earnings and increased the Bank's paid-in capital by $1,549,812 thousand and $5,069,478 thousand, respectively. The amounts of total paid-in capital at December 31, 2014 and 2013 were $79,040,404 thousand and $77,490,592 thousand, respectively.

b. Distribution of earnings and dividend policy

Under the Bank's Articles of Incorporation, the Bank should make appropriations from its net income in the following order:

1) Payment of income taxes;

2) Offset of prior years' losses, if any;

3) 30% as legal reserve and if needed, special reserve;

4) Dividends to shareholders as proposed by the Board of Directors and resolved in the general shareholders' meeting.

5) 1% to 1.5% as bonuses to directors and supervisors based on the approval of the Board of Directors.

6) 1% to 8% as bonuses to employees based on the approval of the Board of Directors.

For the years ended December 31, 2014 and 2013, the bonus to employees was $610,242 thousand and $493,822 thousand, respectively, and the remuneration to directors and supervisors was $95,350 thousand and $77,160 thousand, respectively. The bonus to employees and remuneration to directors and supervisors represent 8.00% and 1.25%, based on past experiences, of net income (net of the bonus to employees and remuneration to directors and supervisors) minus legal reserve. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate.

If bonus shares are resolved to be distributed to employees the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day proceeding the shareholders' meeting.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Bank should appropriate or reverse to a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Bank's paid-in capital. Legal reserve may be used to offset deficit. If the Bank has no deficit and the legal reserve has exceeded 25% of the Bank's paid-in capital, the excess may be transferred to capital or distributed in cash.

The Bank cannot distribute cash dividends or purchase treasury stocks if the Bank has any of the situations cited in Item 1, Section 1, Article 44 of the Banking Law.

The maximum amount of cash dividends cannot exceed 15% of the Bank's total capital if the Bank's capital surplus is less than the capital based on Section 1.

The restriction of the cash dividends stated above does not apply if the Bank's capital surplus exceeds the capital or the Bank's financial position satisfied the criteria by the authority and also the Bank appropriates the legal reserve based on the Company Law.

To ensure the Bank has cash for present and future expansion plans and to raise the profitability, the Bank prefers to distribute more stock dividends, but cash dividends shall not be less than 10% of total dividends distributed. If the cash dividends are less than $0.1 per share, the Bank will not distribute any cash dividends, unless otherwise adopted in the shareholders' meeting.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Bank.

The appropriations of earnings for 2013 and 2012 had been approved in the shareholders' meetings on June 20, 2014 and June 21, 2013. The appropriations of earnings and dividends per share were as follows:

| | **Appropriation of Earnings** | | **Dividends Per Share (NT$)** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Legal reserve | $ 2,645,475 | $ 2,541,225 | | |
| Dividends of common stock - cash | 4,649,435 | 724,211 | $ 0.60 | $ 0.10 |
| Dividends of common stock - stock | 1,549,812 | 5,069,478 | 0.20 | 0.70 |

Bonuses to employees and remuneration to directors and supervisors for 2013 and 2012 approved in the shareholders' meetings on June 20, 2014 and June 21, 2013, respectively, were as follows:

| | **For the Year Ended December 31** | |
|---|---|---|
| | **2013** | **2012** |
| | **Cash Dividends** | **Cash Dividends** |
| Bonus to employees | $ 493,822 | $ 474,362 |
| Remuneration of directors and supervisors | 77,160 | 74,119 |

The appropriations of earnings for 2012 were proposed according to the Group's consolidated financial statements for the years ended December 31, 2012, which were prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the Generally Accepted Accounting Standard in the Republic of China ("ROC GAAP"),, and by reference to the balance sheet for the year ended December 31, 2012, which was prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (revised) and International Financial Reporting Standards.

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meetings in 2014 and 2013 and the amounts recognized in the consolidated financial statements for the years ended December 31, 2013 and 2012.

The appropriations of earnings, the bonus to employees, and the remuneration to directors and supervisors for 2014 are subject to the resolution of the shareholders' meeting to be held on June 2015.

Information about the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Special reserve

| | December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Special reserves appropriated following first-time adoption of IFRSs | $ 11,778,829 | $ 11,778,829 |
| Others | 241,692 | 241,692 |
| | $ 12,020,521 | $ 12,020,521 |

The increase in retained earnings that resulted from all IFRSs adjustments was not enough for this appropriation; therefore, the Group appropriated for special reserve an amount of $11,778,829 thousand, the increase in retained earnings that resulted from all IFRSs adjustments on transitions to IFRSs.

## 29. NET INCOME

a. Net interest income

| | For the Year Ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Interest income | | |
| Loans | $ 25,058,648 | $ 23,502,023 |
| Due from and call loans to banks | 4,247,247 | 1,275,898 |
| Investment in marketable securities | 2,410,687 | 2,449,852 |
| Others | 145,889 | 93,638 |
| | 31,862,471 | 27,321,411 |
| Interest expense | | |
| Deposits | (10,003,856) | (8,490,451) |
| Due to the Central Bank and call loans from banks | (1,352,154) | (741,525) |
| Others | (1,168,505) | (1,009,007) |
| | (12,524,515) | (10,240,983) |
| Net interest income | $ 19,337,956 | $ 17,080,428 |

b. Net service fee and commissions income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Service fee and commissions income | | |
| Fees from import and export | $ 300,488 | $ 290,707 |
| Remittance fees | 547,557 | 542,953 |
| Loan and guarantees fees | 469,325 | 325,704 |
| Fees from trustee | 968,623 | 869,401 |
| Fees from trustee business | 276,687 | 290,808 |
| Others | 2,891,282 | 2,444,547 |
| | 5,453,962 | 4,764,120 |
| Service fee and commissions | | |
| Interbank fees | (128,355) | (120,934) |
| Fees from trustee business | (85,142) | (134,940) |
| Management fees | (47,482) | - |
| Others | (493,344) | (362,778) |
| | (754,323) | (618,652) |
| Net service fee and commissions income | $ 4,699,639 | $ 4,145,468 |

c. Gain (loss) on financial assets and liabilities at fair value through profit or loss

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Disposal gains (losses) on financial assets and liabilities at FVTPL | | |
| Stocks and beneficiary certificates | $ 2,404 | $ 1,404 |
| Bonds | (73,046) | (42,838) |
| Bills | 23 | 23 |
| Derivative financial instruments | 739,342 | 940,148 |
| Net interest income | 250,846 | 361,806 |
| | 919,569 | 1,260,543 |
| Valuation gains (losses) on financial assets and liabilities at FVTPL | | |
| Stocks and beneficiary certificates | 7,642 | 333 |
| Bonds | 42,597 | (36,844) |
| Bills | 3,064 | (8,819) |
| Derivative financial instruments | (97,384) | (150,634) |
| | (44,081) | (195,964) |
| | $ 875,488 | $ 1,064,579 |

d. Realized gain (loss) on available-for-sale financial assets

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Stock dividends and bonuses | $ 60,083 | $ 52,644 |
| Disposal gains | | |
| Stock | 15,642 | 241,572 |
| Bonds | 60,984 | 129,630 |
| | 136,709 | 423,846 |

(Continued)

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Disposal losses | | |
| Stock | $ (11,575) | $ (51,664) |
| Bonds | (6,381) | (104,173) |
| Others | - | (21,713) |
| | (17,956) | (177,550) |
| | $ 118,753 | $ 246,296 |

(Concluded)

e. Depreciation and amortization expenses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Property and equipment | $ 590,582 | $ 631,015 |
| Investment property | 6,288 | 6,896 |
| Intangible assets and other deferred assets | 118,595 | 30,336 |
| | $ 715,465 | $ 668,247 |

f. Employee benefits expenses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Short-term benefits | $ 9,115,993 | $ 8,619,517 |
| Post-employment benefits | | |
| Defined contribution plans | 185,575 | 127,068 |
| Defined benefit plans | 294,745 | 297,353 |
| High-yield savings account for employees | 310,355 | 249,549 |
| Other post-employment benefits | 155,533 | 198,372 |
| | $ 10,062,201 | $ 9,491,859 |

## 30. INCOME TAX

a. Income tax recognized in profit or loss

The major components of tax expense (income) were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Current tax | | |
| In respect of the current year | $ 1,299,804 | $ 294,521 |
| Additional income tax on unappropriated earnings | - | 13,584 |
| Others | (822) | 602 |
| Deferred tax | | |
| In respect of the current year | 145,577 | 1,496,615 |
| Non-deductible tax of overseas branches | 82,346 | 124,149 |
| Income tax expense recognized in profit or loss | $ 1,526,905 | $ 1,929,471 |

A reconciliation of accounting profit and income tax expenses/average effective tax rate and the applicable tax rate is as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Profit before tax | $ 12,424,085 | $ 10,747,720 |
| Income tax expense calculated at the statutory rate | 2,112,094 | 1,827,112 |
| Nondeductible expenses in determining taxable income | (7,376) | 7,440 |
| Overseas' branch's additional income of deferred tax effect | 71,196 | - |
| Tax-exempt income | (550,007) | (140,729) |
| Additional income tax on unappropriated earnings | - | 13,584 |
| Non-deductible tax of overseas branches | 82,346 | 124,149 |
| Adjustments for prior years' tax | (180,526) | 79,358 |
| Others | (822) | 18,557 |
| | $ 1,526,905 | $ 1,929,471 |

b. Income tax recognized in other comprehensive income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Deferred tax | | |
| In respect of the current year: | | |
| Translation of foreign operations | $ 97,319 | $ 33,753 |
| Fair value changes of available-for-sale financial asset | (1,753) | 1,270 |
| Actuarial gains and losses on defined benefit plan | (43,301) | (34,457) |
| Total income tax recognized in other comprehensive income | $ 52,265 | $ 566 |

c. Current tax assets and liabilities

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Current tax assets | | |
| Tax refund receivable | $ 569,315 | $ 771,479 |
| Others | 12,643 | 8,741 |
| | $ 581,958 | $ 780,220 |
| Current tax liabilities | | |
| Income tax payable | $ 849,381 | $ 125,334 |

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2014

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Others | Closing Balance |
|---|---|---|---|---|---|
| Deferred tax assets | | | | | |
| Temporary differences | | | | | |
| Doubtful debts | $ 1,608,885 | $ 169,985 | $ - | $ - | $ 1,778,870 |
| Others | 673,254 | 135,278 | 43,301 | - | 851,833 |
| | 2,282,139 | 305,263 | 43,301 | - | 2,630,703 |
| Tax losses | 825,460 | (270,131) | - | - | 555,329 |
| | $ 3,107,599 | $ 35,132 | $ 43,301 | $ - | $ 3,186,032 |
| Deferred tax liabilities | | | | | |
| Land revaluation increment tax | $ 6,156,692 | $ - | $ - | $ - | $ 6,156,692 |
| Temporary differences | 305,057 | 180,709 | 95,566 | - | 581,332 |
| | $ 6,461,749 | $ 180,709 | $ 95,566 | $ - | $ 6,738,024 |

For the year ended December 31, 2013

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Others | Closing Balance |
|---|---|---|---|---|---|
| Deferred tax assets | | | | | |
| Temporary differences | | | | | |
| Doubtful debts | $ 1,680,600 | $ (71,715) | $ - | $ - | $ 1,608,885 |
| Others | 629,104 | 15,358 | 28,792 | - | 673,254 |
| | 2,309,704 | (56,357) | 28,792 | - | 2,282,139 |
| Tax losses | 2,178,844 | (1,353,384) | - | - | 825,460 |
| | $ 4,488,548 | $ (1,409,741) | $ 28,792 | $ - | $ 3,107,599 |
| Deferred tax liabilities | | | | | |
| Land revaluation increment tax | $ 6,156,692 | $ - | $ - | $ - | $ 6,156,692 |
| Temporary differences | 33,106 | 86,874 | 29,358 | 155,719 | 305,057 |
| | $ 6,189,798 | $ 86,874 | $ 29,358 | $ 155,719 | $ 6,461,749 |

e. Loss carryforwards as of December 31, 2014 comprised of:

| Unused Amount | Expiry Year |
|---|---|
| $ 555,329 | 2015 |

f. Information about integrated income tax was as follows:

| | December 31 2014 | December 31 2013 |
|---|---|---|
| Unappropriated earnings generated on and after January 1, 1998 | $ 10,723,060 | $ 8,882,010 |
| Imputation credits accounts | $ 1,105,513 | $ 124,749 |

The creditable ratio for distribution of earnings of 2014 and 2013 was 10.31% (estimate) and 1.40%, respectively.

g. The income tax returns through 2011 had been examined and cleared by the tax authority. Since the Group has further doubts about the clearance of the 2011 tax returns, the Group is filing an appeal to a high court. Both CHB Life Insurance Agency's and CHB Insurance Brokerage's income tax returns through 2013 had been examined and cleared by the tax authority.

## 31. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share from continuing operations were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Net profit for the year | $ 10,897,180 | $ 8,818,249 |

Weighted average number of ordinary shares outstanding (in thousand shares):

| | For the Year Ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Weighted average number of ordinary shares in computation of basic earnings per share | 7,904,040 | 7,904,040 |
| Effect of potentially dilutive ordinary shares: | | |
| Bonus issue to employees | 46,556 | 55,810 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 7,950,596 | 7,959,850 |

If the Group offered to settle bonuses paid to employees in cash or shares, the Group assumed the entire amount of the bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The computation of earnings per share was retrospectively adjusted for the effects of adjustments resulting from bonus stock issues on August 12, 2014. The basic and diluted after-tax earnings per share of 2013 were adjusted retrospectively as followings:

**Unit: NT$ Per Share**

| | For the Year Ended December 31, 2013 | |
|---|---|---|
| | Before Adjusted Retrospectively | After Adjusted Retrospectively |
| Basic earnings per share | $ 1.14 | $ 1.12 |
| Diluted earnings per share | $ 1.13 | $ 1.11 |

## 32. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

Operating leases relate to leases of land with lease terms between 5 and 10 years. All operating lease contracts over 5 years contain clauses for 5-yearly market rental reviews. The Group does not have a bargain purchase option to acquire the leased land at the expiration of the lease periods.

As of December 31, 2014 and 2013, refundable deposits paid under operation leases amounted to $36,566 thousand and $35,142 thousand, respectively.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

| | December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Not later than 1 year | $ 522,401 | $ 531,124 |
| Later than 1 year and not later than 5 years | 853,255 | 938,777 |
| Later than 5 years | 341,047 | 98,406 |
| | $ 1,716,703 | $ 1,568,307 |

b. The Group as lessor

Operating leases relate to the investment property owned by the Group with lease terms between 5 to 10 years, with an option to extend an additional 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

As of December 31, 2014 and 2013, refundable deposits paid under operation leases amounted to $46,764 thousand and $44,997 thousand, respectively.

The future minimum lease payments of non-cancellable operating lease were as follows:

| | December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Not later than 1 year | $ 208,372 | $ 190,855 |
| Later than 1 year and not later than 5 years | 420,951 | 417,556 |
| Later than 5 years | 72,575 | 56,808 |
| | $ 701,898 | $ 665,219 |

## 33. CAPITAL RISK MANAGEMENT

a. Summary

The Group's goals in capital management are as follows:

1) The Group's qualified regulatory capital should meet the requirement of capital adequacy regulations, and reached the minimum capital adequacy ratio.

2) To ensure the Group is able to meet the capital heeds, it should be evaluated periodicity and observed the variation between regulatory capital and risk assets to keep common equity ratio in the interval approved by the board of directors.

3) Related to the calculation of qualified regulatory capital and legal capital were according to the regulation of administration.

b. Capital management procedures

The Group kept capital adequacy ratio completely to meet the requirement of the administration, and declared to the administration quarterly.

In addition, the capital management procedures for the overseas subsidiaries of the Group were carried out according to the regulation of local administrations.

The Group's capital adequacy performance, which was calculated based on Regulations Governing the Capital Adequacy and Capital Category of Banks, was reported to the Asset and Liability Management Committee of the Group periodically. The regulatory capital was classified into Tier 1 Capital, other Tier 1 Capital and Tier 2 Capital.

1) Tier 1 Capital: Include Common Equity and other Tier 1 Capital

Common Equity: Include common stock (include capital collected in advance), Capital reserves (exclude additional paid-in capital in excess of par - preferred stock), accumulated profit, reserve and adjusted equity. Deduct: Legal adjustments.

2) Other Tier 1 Capital: Include noncumulative perpetual preferred stock, noncumulative perpetual subordinated debts. Deduct: Legal adjustments.

3) Tier 2 Capital: Include cumulative perpetual preferred stock, cumulative perpetual subordinated debts, revaluation reserve, long-term subordinated debt, non-perpetual preferred stock include stock issue price 45% of unrecognized available for sale financial assets convertible bonds, operating reserves and allowance for doubtful accounts. Deduct: Legal adjustments.

c. Capital adequacy

| Item \ Period | | | December 31 2014 | December 31 2013 |
|---|---|---|---|---|
| Self-owned capital | Common equity Tier I | | $ 102,963,876 | $ 96,663,815 |
| | Other Tier I capital | | 3,115,460 | 3,601,246 |
| | Tier II capital | | 38,124,697 | 26,287,046 |
| | Self-owned capital | | 144,204,033 | 126,552,107 |
| Risk-weighted assets | Credit risk | Standardized approach | 1,202,332,050 | 1,073,451,974 |
| | | IRB | - | - |
| | | Securitization | 27,727 | 59,772 |
| | Operation risk | Basic indicator approach | - | - |
| | | Standardized approach/optional standard | 41,779,613 | 39,393,925 |
| | | Advanced internal rating based approach | - | - |
| | Market price risk | Standardized approach | 14,883,813 | 20,542,888 |
| | | Internal model approach | - | - |
| | Total | | 1,259,023,203 | 1,133,448,559 |
| Capital adequacy ratio | | | 11.45% | 11.17% |
| Common equity Tier I to risk-weighted assets ratio | | | 8.18% | 8.53% |
| Tier I capital to risk-weighted assets ratio | | | 8.43% | 8.85% |
| Leverage ratio | | | 3.97% | 3.67% |

Note 1: The ratios are calculated in accordance with the Regulations Governing the Capita l Adequacy and Capital category of Banks.

Note 2: Annual financial report should include the capital adequacy ratio in current and previous period. Besides semiannual report should disclose the ratio the end of last year.

Note 3: Formula:

a. Self-owned capital = Common equity Tier I + Other Tier I capital + Tier II capital

b. Risk-weighted assets = Credit risk-weighted assets + (Operation risk capital + Market price risk capital) x 12.5

c. Capital adequacy = Self-owned capital/Risk-weighted assets

d. Common equity Tier I capital to risk-weighted assets ratio = Common equity Tier I capital/Risk-weighted assets

e. Tier I capital to risk-weighted assets ratio = (Common equity Tier I + Other Tier I capital)/Risk-weighted assets

f. Leverage ratio = Tier I capital/Adjusted average assets

## 34. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

1) Fair value of financial instruments not carried at fair value

Except as detailed in the following table, management believes the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

| | December 31 | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| Financial assets | | | | |
| Held-to-maturity investments | $ 183,637,059 | $ 183,665,479 | $ 226,989,182 | $ 226,995,540 |
| Financial assets carried at cost | 4,167,009 | - | 4,181,203 | - |
| Bonds investment with no active market | 3,400,342 | 3,423,964 | 3,811,523 | 3,842,161 |
| Financial liabilities | | | | |
| Bond payables | 48,463,938 | 49,415,625 | 43,322,818 | 44,638,159 |

2) Fair value measurements recognized in the balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**(In Thousands of New Taiwan Dollars)**

| Fair Value Measurement of Financial Instruments | December 31, 2014 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Non-derivative financial products | | | | |
| Assets | | | | |
| Financial assets at FVTPL | $ 31,980,763 | $ 2,604,245 | $ 27,007,761 | $ 2,368,757 |
| Trading assets | 29,612,006 | 2,604,245 | 27,007,761 | - |
| Stocks and mutual funds | 335,228 | 335,228 | - | - |
| Bond investments | 2,274,418 | 2,269,017 | 5,401 | - |
| Others | 27,002,360 | - | 27,002,360 | - |
| Financial assets designated upon initial recognition as at fair value through profit or loss | 2,368,757 | - | - | 2,368,757 |
| Available-for-sale financial assets | 46,145,608 | 24,754,933 | 21,390,675 | - |
| Stock investments | 2,134,508 | 2,134,508 | - | - |
| Bond investments | 43,055,919 | 21,665,244 | 21,390,675 | - |
| Others | 955,181 | 955,181 | - | - |
| Liabilities | | | | |
| Financial liabilities at FVTPL | 15,936,642 | - | 15,936,642 | - |
| Derivative financial products | | | | |
| Assets | | | | |
| Financial assets at FVTPL | 5,844,974 | 24,381 | 5,820,593 | - |
| Hedging derivative financial instruments | 27,629 | - | 27,629 | - |
| Liabilities | | | | |
| Financial liabilities at FVTPL | 4,921,721 | - | 4,921,721 | - |

**(In Thousands of New Taiwan Dollars)**

| Fair Value Measurement of Financial Instruments | December 31, 2013 Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Non-derivative financial products | | | | |
| Assets | | | | |
| Financial assets at FVTPL | $ 57,819,142 | $ 5,907,051 | $ 48,359,164 | $ 3,552,927 |
| Trading assets | 54,142,148 | 5,907,051 | 48,235,097 | - |
| Mutual funds | 277,510 | 277,510 | - | - |
| Bond investments | 15,991,251 | 5,629,541 | 10,361,710 | - |
| Others | 37,873,387 | - | 37,873,387 | - |
| Financial assets designated upon initial recognition as at fair value through profit or loss | 3,676,994 | - | 124,067 | 3,552,927 |
| Available-for-sale financial assets | 37,884,111 | 12,554,174 | 25,329,937 | - |
| Stock investments | 1,767,564 | 1,767,564 | - | - |
| Bond investments | 36,116,547 | 10,786,610 | 25,329,937 | - |
| Derivative financial products | | | | |
| Assets | | | | |
| Financial assets at FVTPL | 2,182,331 | 36,433 | 2,145,898 | - |
| Hedging derivative financial instruments | 62,494 | - | 62,494 | - |
| Liabilities | | | | |
| Financial liabilities at FVTPL | 1,715,364 | - | 1,715,364 | - |

There were no transfers between Level 1 and 2 in the current and prior periods.

3) Reconciliation of Level 3 fair value measurements of financial instruments

Changes in Level 3 financial assets were as follows:

**(In Thousands of New Taiwan Dollars)**

| Item | For the Year Ended December 31, 2014 Beginning Balance | Valuation Gains (Losses) | Increase Buy or Issue | Increase Transfer In | Decrease Sell, Disposal | Decrease Transfer Out | Ending Balance |
|---|---|---|---|---|---|---|---|
| Financial assets designated upon initial recognition as at fair value through profit or loss | $ 3,552,927 | $ 14,180 | $ - | $ - | $ (1,198,350) | $ - | $ 2,368,757 |

**(In Thousands of New Taiwan Dollars)**

| Item | For the Year Ended December 31, 2013 Beginning Balance | Valuation Gains (Losses) | Increase Buy or Issue | Increase Transfer In | Decrease Sell, Disposal | Decrease Transfer Out | Ending Balance |
|---|---|---|---|---|---|---|---|
| Financial assets designated upon initial recognition as at fair value through profit or loss | $ 1,452,350 | $ (21,273) | $ 2,121,850 | $ - | $ - | $ - | $ 3,552,927 |
| Available-for-sale financial assets | | | | | | | |
| Other | 230,216 | 6,621 | - | - | (236,837) | - | - |

Valuation gains (losses) mentioned above recognized in current profits or losses in the amounts of $14,180 thousand and $(21,273) thousand were attributed to gains (losses) on assets owned during the years ended December 31, 2014 and 2013, respectively.

Valuation gains (losses) mentioned above recognized in other comprehensive income in the amounts of $6,621 thousand were attributed to gains (losses) on assets owned during the year ended December 31, 2013.

4) Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices;

b) The fair values of derivative instruments were calculated using quoted prices. Where such prices were not available, a discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates;

c) The fair values of other financial assets and financial liabilities (excluding those described above) were determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

5) The sensitivity analysis for the substitution assumption of fair value of level 3 financial instruments

The measurement of financial instruments fair value is reasonable. If the fair value of Level 3 financial instruments changed 5%, the effect to profit or loss or other comprehensive income were as follows:

| | Fair Value Through Profit or Loss | | Fair Value Through Other Comprehensive Income | |
|---|---|---|---|---|
| | **Advantageous** | **Disadvantageous** | **Advantageous** | **Disadvantageous** |
| December 31, 2014 | | | | |
| Financial assets designated as at FVTPL | $ 118,438 | $ (118,438) | $ - | $ - |
| December 31, 2013 | | | | |
| Financial assets designated as at FVTPL | 177,646 | (177,646) | - | - |

b. Reclassification information

The Group reclassified parts of financial assets based on the fair value traced back to July 1, 2008, according to the amended Statement of Financial Accounting Standards No. 34 "Financial Instruments: Recognition and Measurement". The fair values on the reclassification date were as follows:

| | Before Reclassification | After Reclassification |
|---|---|---|
| Available-for-sale financial assets | $ 14,246,193 | $ - |
| Debt investments without active market | - | 14,246,193 |
| | $ 14,246,193 | $ 14,246,193 |

During the third quarter of 2008, the international economic condition changed a lot and resulted in global financial crisis which caused the value of financial assets to collapse, the Group decided not to sell parts of the available-for-sale financial assets in a short period of time, and reclassified them to debt investments without active market.

The reclassified financial assets had matured on January 30, 2014.

The carrying amount and fair value after reclassification as of December 31, 2013 was as follows:

| | December 31, 2013 | |
|---|---|---|
| | Carrying Amount | Fair Value |
| Debt investment without active market | $ 246,564 | $ 251,192 |

The investment income and pro forma adjustment to stockholders' equity if the reclassification had not been taken was as follows:

| | For the Year Ended December 31, 2013 | |
|---|---|---|
| | Investment Income (Loss) | Pro Forma Adjustment to Stockholders' Equity |
| Available-for-sale financial assets | $ 1,446 | $ 13,475 |

c. Financial risk management objectives and policies

1) Market risk

a) The source and definition of market risk

Market risk is the uncertainty of changes in fair value of on- and off-balance-sheet financial instruments due to changes in market risk factors. Market risk factors include interest rates, exchange rates, equity security prices and commodity prices.

The major market risks of the Bank are equity securities price risks, interest rate risks, and exchange rate risks. The main position of equity securities risk includes domestic public, OTC, and emerging market stocks, domestic stock index options and stock index futures. The main position of interest rate risk includes bonds and interest derivative instruments, such as interest rate swap. The main position of exchange rate risk includes the Bank's investments denominated in foreign currencies, such as foreign currency spots and foreign currency options.

b) Market risk management policy

The Bank classifies the financial instruments held by the Bank as trading book and banking book, and determines the market risk as interest rate risk, exchange rate risk, and equity security price risk. The Bank establishes "Market Risk Management Regulation", "Derivative Trading Process" and various financial instrument related regulations to manage the market risk of overall foreign exchange position, normal position, interest rate position of trading book and equity security position. The overall interest rate risk management of banking book belongs to Assets and Liabilities Management Committee.

The market risk management regulations are as follows:

i. Establish the market risk management process to ensure the risk would be identified, measured, monitored and reported.

ii. Measure and monitor the market risk and keep it under the risk limit and minimize unexpected loss from market risk.

iii. Follow the regulations of Basel Accord.

iv. Establish the market risk management system and economic capital allocation process.

v. Monitor the credit line management of financial instrument, sensitivity analysis, stress testing and the calculation of VaR. Report the result of market risk monitoring to Risk Management Committee periodically and Board of Director quarterly.

c) Market risk management procedures

According to "Whole Risk Management Policy", Risk Management Department is the second line of defense against the market risk. Risk Management Department performs the market risk management, establishes related management process, and reports to the appropriate level of the management. Besides, Risk Management Department establishes independent risk management process and ensures it remains effective.

i. Identifying and measuring

The effective market risk management process begins with identifying the inherent risk of operating activities and financial instruments. The Bank reviews the risk identifying method timely when the market environment changes and makes necessary adjustment to ensure the effective operation of the market risk management process. The Bank's risk management department identifies market risk factors and measures the market risk. The market risk factors refer to the factors which affect the interest rate, exchange rate or the fair value of equity instruments. The market risk factors include the position, profits and loss, loss from stress testing, PVO1, Delta, VaR, etc.

ii. Monitoring and reporting

The Bank controls market risk by managing risk limits. The risk management department sets various trading limits, such as position limits, stop-loss limits, and maximum potential loss. The trading limits are implemented only after they are reported to and approved by the Board of Directors.

The risk management department calculates exposures and estimated gains and losses on positions daily to make sure that the positions held and losses do not exceed the limits approved by the Board of Directors and prepares reports to the high-level management and the Board of Directors periodically for their sufficient understanding of the implementation of the market risk management and, if necessary, issuance of additional guidance.

The risk management department reports important market risk issues, such as discovery of possible loss on positions in each trading book or identification of weakness in the market risk management system, to the Risk Management Committee in order to improve the effectiveness of the market risk management.

iii. Stress testing

The stress testing is one of the important tools for risk management. It is used for verifying effects on the investment portfolio due to some extremely disadvantageous but possible stressful events and for analyzing exposure level and risk tolerance in such situations and furthermore evaluating the portfolio loss or the impact on the capital. Chang Hwa Bank performs stress testing for forecasting risk and for assessment and reinforcement of statistical models or historical data limitations.

d) Trading book market risk management

The trading book refers to the position of financial instruments held for trading or hedging. The position of financial instruments held for trading refers to the position which earns profits from actual or expected short-term price fluctuations.

i. Definition of trading book interest rate risk

The Bank determines the risk limitation of the investment portfolio of trading book by evaluating trading strategy, trading category, and annual performance.

ii. Management policy on trading book interest rate risk

The Bank follows “Market Risk Management Rules”, “Derivative Trading Process” and various financial instrument related regulations as the important management rules of trading book.

iii. Valuation policy

The trading positions are valued real time or daily. The hedging derivatives are valued at least twice a month. The resources of fair value of financial instruments are categorized as: (1) those derived from quoted prices in active markets; (2) the latest price with no active market; (3) valuation with no active market.

iv. Risk measuring methods

i) The sensitivity of the interest rate changes of investment portfolio is measured by DV01. The sensitivity of the foreign exchange derivatives is measured by the sensitivity factors (Delta, Gamma, and Vega).

ii) With regard to the Bank's Value at Risk assumptions and calculation methods, please refer to item i.

iii) The Bank performs the stress test quarterly and report the result to Risk Management Committee periodically.

e) Trading book interest rate risk management

i. Definition of interest rate risk

Interest rate risk is fair value changes in interest rate risk position held by the Bank due to interest rate changes. The risks are mainly in debt securities and interest rate derivatives.

ii. Management procedures

The Bank defines the trading limit of trading book and the stop-loss limit of different financial instruments by assessing the credit and the financial position of the issuers.

iii. Measuring methods

The interest rate factor sensitivity of debt securities and interest rate derivatives is measured by DV01. With regard to the Bank's Value at Risk assumptions and calculation methods, please refer to item i.

f) Banking book interest rate risk management

i. Definition of banking book interest rate risk

The banking book interest rate risk means the unfavorable change of interest rate of non-trading-book interest rate position which changes the present value of revenues and costs or assets and liabilities and causes decrease of earnings or impairment of economic value.

ii. Management policy on banking book interest rate risk

According to the Bank's interest rate risk management policy, the Bank has set various measurement indicators and limits on banking book interest rate risk. To pursue profits and steady growth of shareholder value without exposure to extreme loss risks, the Bank applies appropriate management strategy including on- and off-balance-sheet adjustments and maintains appropriate amounts of assets and liabilities.

iii. Measuring methods

The Bank mainly applies standard method for interest rate risk sensitivity gap analysis to measure banking book interest rate risks. The responsible department periodically measures banking book interest rate risks and reports to related departments and to the Asset and Liability Management Committee in order to adopt appropriate strategies for adjusting banking book interest rate risk combinations. Assessment information of banking book interest rate risk would be presented to the Board of Directors periodically to let the high-level management control such risks.

g) Exchange rate risk management

i. Definition of exchange rate risk

Exchange rate risk is the gain or loss resulting from exchange or translation of two different foreign currencies at different times. The Bank's exchange rate risk mainly comes from spot and forward exchange positions.

ii. Management procedures and methods

The risk management department sets the position limit and stop-loss limit of trading book investment combinations in order to control exchange rate risk. If the losses reach the stop-loss limit, the trading department should decrease risk exposure positions so as to control losses.

The risk management department applies sensitivity analysis or Value at Risk to measure exchange rate risk and calculates stress loss of risk position held. In sensitivity analysis, Delta is applied to measure the exchange rate risk of the first order change and Gamma is applied to measure the exchange rate risk of the second order change. In addition, Vega is used to measure the first order risk of implied volatility rate. With regard to the Bank's Value at Risk assumptions and calculation methods, please refer to item i.

h) Equity security price risk management

i. Definition of equity security price risk

Equity security price risk is the valuation effect on the position held by the Bank when the equity security price changes. The Bank's equity security price risk mainly comes from public and OTC stocks, index futures and options.

ii. Measuring purpose, procedures and methods

The risk management department applies sensitivity analysis or Value at Risk to measure equity security price risk and calculates stress loss of risk position held. In sensitivity analysis, Delta, Gamma and Vega are, applied to measure the independent equity security price risk of the first order change, or market value is applied to indicate the exposure risks on positions of stocks. With regard to the Bank's Value at Risk assumptions and calculation methods, please refer to item i.

i) Market risk measuring method

i. Value at Risk, "VaR"

The Bank uses VaR model and stress testing to evaluate the risk of trading portfolio the market risk and the maximum expected loss of positions held through assumptions of changing market situation. VaR is the statistical estimation of potential losses of existing positions arising from unfavorable market changes. VaR refers to the maximum potential loss that Chang Hwa Bank might be exposed to within the confidence interval (99%), which means there is a certain probability (1%) that the actual loss would exceed VaR. Significant loss caused by excessive market volatility could not be avoided by using VaR.

The Bank uses the variance-covariance method to determine VaR in 2013. Interest rate risk measurement method is based on the cash flows of the investment portfolio and the value of basis point. The term structure is divided into 13 time bands, the designed grouping of the investment portfolio cash flows. After selecting confidence interval (99%), the VaR of interest rate risk of certain portfolio is determined by its historical volatility and correlations; the VaR of equity securities is determined by the associated stock market index linked with Single Index Model. Under the approach, the β value is calculated by independent variable (the previous daily returns data of the market index) and dependent variable (the previous daily returns data of certain stock). After the β value and confidence (99%) are determined, the historical volatility is applied to decide portfolio VaR. Exchange rate VaR is measured on the history of currency volatility and correlations. After selecting confidence (99%), the exchange rate VaR of each currency held by the Bank is calculated.

The Bank changed the VaR method to historical simulation method on January 27, 2014. The historical simulation method is based on historical data to estimate the future cash flow and assess the market risk of financial instrument. There are more and more financial institutions using the historical simulation method. However, there are some limitations for using the method. One of the limitations is that the assumption used in the method may not reflect the real situation. Besides, the simulation result may not be representative if the historical data used are too small. The Bank would use proxy to respond to the limitations mentioned above.

According to the Bank's "Risk Management Committee Establishment Points", the risk appetite of trading book market risk, operating limits and VaR limits should be approved by the Risk Management Committee. VaR is an important internal risk control in the Bank. The VaR limits of investment portfolio are approved annually by the Risk Management Committee and reported to the Board of Directors. In addition, the daily actual VaR is monitored by the Bank's risk management department.

ii. As of December 31, 2014 and 2013, the Bank's VaR factors based on historical simulation method were as follows:

| | For the Year Ended December 31, 2014 | | | |
|---|---|---|---|---|
| | **Average** | **Highest** | **Lowest** | **Ending Balance** |
| Exchange VaR | $ 135,660 | $ 152,540 | $ 119,572 | $ 144,792 |
| Interest rate VaR | 123,363 | 386,978 | 15,659 | 386,978 |
| Equity securities VaR | 1,036 | 1,349 | 794 | 1,134 |
| Value at risk | $ 260,059 | $ 540,867 | $ 136,025 | $ 532,904 |

| | For the Year Ended December 31, 2013 | | | |
|---|---|---|---|---|
| | **Average** | **Highest** | **Lowest** | **Ending Balance** |
| Exchange VaR | $ 369,907 | $ 413,645 | $ 318,914 | $ 345,400 |
| Interest rate VaR | 70,237 | 564,378 | 41,691 | 64,790 |
| Equity securities VaR | 1,739 | 3,153 | 807 | 1,759 |
| Value at risk | $ 441,883 | $ 981,176 | $ 361,412 | $ 411,949 |

2) Primary foreign currencies

The significant foreign-currency financial assets and liabilities as of December 31, 2014 and 2013 were as follows:

**(In Thousands of Foreign Currencies/New Taiwan Dollars)**

| | December 31, 2014 | | |
|---|---|---|---|
| | **Foreign Currencies** | **Exchange Rate** | **New Taiwan Dollars** |
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | $ 6,108,327 | 31.6700 | $ 193,450,716 |
| GBP | 26,759 | 49.3400 | 1,320,289 |
| AUD | 617,358 | 26.0250 | 16,066,742 |
| HKD | 4,247,854 | 4.0820 | 17,339,740 |
| CAD | 8,576 | 27.3200 | 234,296 |
| JPY | 49,732,616 | 0.2656 | 13,208,983 |
| EUR | 354,442 | 38.5400 | 13,660,195 |
| NZD | 93,906 | 24.8500 | 2,333,564 |
| RMB | 21,981,098 | 5.0990 | 112,081,619 |
| Non-monetary items | | | |
| USD | 36,164 | 31.6700 | 1,145,314 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 6,563,849 | 31.6700 | 207,877,098 |
| GBP | 40,669 | 49.3400 | 2,006,608 |
| AUD | 663,213 | 26.0250 | 17,260,118 |
| HKD | 2,958,270 | 4.0820 | 12,075,658 |
| CAD | 35,042 | 27.3200 | 957,347 |
| ZAR | 1,593,127 | 2.7400 | 4,365,168 |
| JPY | 47,078,397 | 0.2656 | 12,504,022 |
| EUR | 425,970 | 38.5400 | 16,416,884 |
| NZD | 169,519 | 24.8500 | 4,212,547 |
| RMB | 16,024,892 | 5.0990 | 81,710,924 |
| Non-monetary items | | | |
| USD | 536,100 | 31.6700 | 16,978,287 |

(In Thousands of Foreign Currencies/New Taiwan Dollars)

| | December 31, 2013 | | |
|---|---|---|---|
| | Foreign Currencies | Exchange Rate | New Taiwan Dollars |
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 5,404,324 | 29.7800 | $ 160,940,769 |
| GBP | 81,587 | 49.1400 | 4,009,185 |
| AUD | 695,630 | 26.5850 | 18,493,324 |
| HKD | 1,858,439 | 3.8400 | 7,136,406 |
| CAD | 51,687 | 27.9800 | 1,446,202 |
| JPY | 49,284,378 | 0.2840 | 13,996,763 |
| EUR | 349,304 | 41.1200 | 14,363,380 |
| NZD | 51,662 | 24.5000 | 1,265,719 |
| RMB | 12,942,152 | 4.9130 | 63,584,793 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 6,217,419 | 29.7800 | 185,154,738 |
| GBP | 127,283 | 49.1400 | 6,254,687 |
| AUD | 832,273 | 26.5850 | 22,125,978 |
| HKD | 1,394,370 | 3.8400 | 5,354,381 |
| CAD | 66,764 | 27.9800 | 1,868,057 |
| ZAR | 1,668,055 | 2.8600 | 4,770,637 |
| JPY | 52,689,808 | 0.2840 | 14,963,905 |
| EUR | 368,134 | 41.1200 | 15,137,670 |
| NZD | 134,493 | 24.5000 | 3,295,079 |
| RMB | 9,443,643 | 4.9130 | 46,396,618 |

3) Credit risk

a) Source and definition

Credit risk means the possible loss due to failure of debtors or counterparties to fulfill their contractual obligations or their ability to fulfill contractual obligations is impaired. Credit risk arises from the operation, on- and off-balance-sheet items, including credit loans, derivatives transactions and securities investment, etc. Because the business becomes more complex, the credit risk is often generated with other risks that affect one another. For example, exchange rate risk also exists in foreign currency debt investment. Secured loans will be affected by the price volatility of the collaterals and market liquidity risk of the collaterals.

b) Credit risk management policy

i. To meet the needs of risk management, the Bank continues to enhance corporate finance credit application management system and various risk management techniques and efficiency.

ii. The Bank continues to develop methods of credit risk quantification models to elevate credit risk management techniques, which enable the Bank's capital requirement and expected loss to become more risk sensitive.

iii. The Bank continues to develop and implement credit risk stress testing in compliance with the requirements of the competent authority supervising risk management and improve the effectiveness of the Bank's risk management.

iv. The Bank is building a complete after-loan monitoring mechanism to efficiently identify and manage potential problematic loans, establish appropriate monitoring procedures, track the frequency and the specific responsive measures in order to achieve active management in the process of credit risk identification, measurement, monitoring and reporting

v. The Bank is building a knowledge base to facilitate learning and assessment. To meet the business demand, it holds risk management seminars and trainings to shape the Bank's risk management culture

The Bank's credit risk management procedures and measuring methods for major business are described as follows:

i. Credit business (including loan commitments and guarantees)

Levels are as follows:

i) Classification of credit assets

The Bank's credit assets are grouped into five categories. Except for normal credit assets, the remaining unsound credit assets are evaluated based on the status of the loan collaterals and the length of time overdue, and grouped into "special-mentioned", "substandard", and "losses".

In order to manage problematic credit loans, the Bank has set up "Operating Points of Assets Assessment", "Assessment Operating Details of Handling Debts to Normal Borrowers", "Principle of Overdue Loans, Delinquent Loans and Doubtful Debts Handling Authority", "Regulations Governing Overdue Loans, Delinquent Loans and Doubtful Collection" and other regulations managing credit loans and collection of loans.

ii) Credit quality level

For risk management purposes, the Bank has set up internal rating models for credit risks in accordance with the nature and scale of a business.

With the use of statistical method and judgment by experts, the Bank has developed a credit rating model for clients. After taking into account client-related information, the Bank developed a corporate credit rating model. The Bank reviews the model periodically to examine if the outcome matches reality and adjusts each parameter to optimize the result.

The Bank evaluates the credit rating of borrowers at least once a year. In addition, to ensure the estimates used are reasonable and to make sure the outcome calculated matches reality, the Bank annually conducts validity test and back-testing of the models using data on customers' actual defaults.

The Bank classifies the credit qualities of corporate loans as strong, medium, weak and non-rating.

Clients of consumer finance are temporarily classified as non-rating. Once the customized grading models have accumulated considerable information and the results match actual situations, the credit exposure is classified based on the grading results.

ii. Call loans to banks

The Bank evaluates the credit status of counterparties before deals are closed. The Bank grants different limits to the counterparties based on their respective credit ratings as suggested by domestic and foreign credit rating institutes. The Bank assesses the credit limits to counterparties based on their levels and financial status and efficiently manages counterparties' credit risks through regular reviews, monitoring and reports.

iii. Debt instrument and derivatives financial instruments

The Bank identifies and manages the credit risks from debt instruments through the use of external credit ratings of the debt instruments along with the evaluation of credit qualities of bonds, regional conditions and counterparty risks.

The other banks with which the Bank conducts derivative transactions are mostly considered investment grade. The Bank monitors the credit limits (including lending limits) by counterparties. The credits extended to counterparties who are general customers are monitored in accordance with the related contract terms and conditions and the credit limits for derivatives established in normal credit granting processes.

The Bank classifies the credit qualities of debt instruments as strong, medium, weak and non-rating.

c) Credit risk hedging or mitigation policies

i. Collaterals

The Bank has a series of measures for credit granting to reduce credit risks. One of the procedures is asking for collaterals from the borrowers. To secure the loans, the Bank manages and assesses the collaterals following the procedures that suggest the scope of collateralization and valuation of collaterals and the process of disposition. In credit contracts, the Bank stipulates the security mechanism for loans and the conditions and terms for collaterals offsetting to state clearly that the Bank reserves the right to reduce granted limit, to reduce repayment period, to demand immediate settlement or to offset the debts of the borrowers with their deposits in the Bank in order to reduce the credit risks.

ii. Credit line credit risks and control over concentration of credit risks

To avoid the concentration of credit risks, the Bank has included credit limits for a single counterparty and for a single group in its credit-related guidelines. The Bank has also included credit limits for an individual (entity) and for related enterprises (group) in the guidelines for investment and regulations for risk control on equity investments. To manage the concentration risk on the assets, the Bank has set credit limits by industry, conglomerate, transactions collateralized by stocks, and other categories and integrated within one system to supervise concentration of credit risk in these categories.

d) Maximum exposure to credit risk

The maximum credit risk exposures of various financial instruments held by the Bank are the same as per book amounts. Please refer to the notes to the consolidated financial statements.

As of December 31, 2014 and 2013, the maximum exposure to credit risk (before deducting the guarantees or other credit enhancement instruments and the irrepealable maximum amount of exposure) were as follows:

| Financial Instrument Type | December 31 2014 | 2013 |
|---|---|---|
| Unused loan commitments (excluding credit card) | $ 85,488,301 | $ 136,682,789 |
| Credit card credit commitment | 266,255 | 153,040 |
| Unused issued letters of credit | 25,944,007 | 24,074,108 |
| Guarantees in guarantee business | 31,530,401 | 28,761,247 |

e) Situation of credit risk concentration

Prominent concentration of credit risks occurs when transaction parties for financial instruments prominently concentrate on one party, or on a few that are in similar business lines or exhibit similar economic characteristics. The characteristics of concentration of credit risks include the nature of business activities engaged by debtors. The Group has not engaged in transactions that involved a prominent concentration to one client or one transaction party, but has engaged in transaction parties of similar industry type or from similar region.

The Group's information on prominent concentration of credit risk was as follows:

| Industry Type | December 31, 2014 Carrying Value | Percentage of Item (%) |
|---|---|---|
| Financial and insurance | $ 75,823,234 | 6 |
| Manufacturing | 338,342,360 | 27 |
| Wholesale and retail | 117,477,075 | 9 |
| Real estate and leasing | 83,535,213 | 7 |
| Service | 26,169,544 | 2 |
| Individuals | 428,873,300 | 34 |
| Others | 203,817,257 | 15 |
| | $ 1,274,037,983 | |

| Industry Type | December 31, 2013 Carrying Value | Percentage of Item (%) |
|---|---|---|
| Financial and insurance | $ 52,337,795 | 5 |
| Manufacturing | 319,034,125 | 27 |
| Wholesale and retail | 104,835,224 | 9 |
| Real estate and leasing | 71,807,021 | 6 |
| Service | 19,520,424 | 2 |
| Individuals | 411,181,778 | 36 |
| Others | 177,661,267 | 15 |
| | $ 1,156,377,634 | |

| Geographic Location | December 31, 2014 Carrying Value | Percentage of Item (%) |
| --- | --- | --- |
| Asia | $ 1,215,416,406 | 96 |
| America | 40,132,693 | 3 |
| Europe | 17,270,197 | 1 |
| Others | 1,218,687 | - |
| | $ 1,274,037,983 | |

| Geographic Location | December 31, 2013 Carrying Value | Percentage of Item (%) |
| --- | --- | --- |
| Asia | $ 1,104,891,801 | 96 |
| America | 31,487,029 | 3 |
| Europe | 18,614,242 | 1 |
| Others | 1,384,562 | - |
| | $ 1,156,377,634 | |

| | December 31, 2014 Carrying Value | Percentage of Item (%) |
| --- | --- | --- |
| Secured | $ 495,622,023 | 39 |
| Unsecured | | |
| Properties | 640,019,390 | 50 |
| Others | 138,396,570 | 11 |
| | $ 1,274,037,983 | |

| | December 31, 2013 Carrying Value | Percentage of Item (%) |
| --- | --- | --- |
| Secured | $ 417,493,156 | 36 |
| Unsecured | | |
| Properties | 605,513,709 | 52 |
| Others | 133,370,769 | 12 |
| | $ 1,156,377,634 | |

f) Financial assets credit quality and non-performing impairment analysis

Part of financial assets held by the Group, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, securities investments purchased under resell agreement, deposit refunds, operating deposits, and settlement deposits are exposed to low credit risks because the counterparties have rather high credit ratings.

i Credit quality analysis of loans and receivables

(In Thousands of New Taiwan Dollars)

| Item | December 31, 2014 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | | | Past Due But Not Impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Provision for Impairment Losses (D) | | Net (A)+(B)+(C)-(D) |
| | High | Medium | Weak | Non-ratings | Subtotal (A) | | | | Objective Evidence of Impairment | Nonobjective Evidence of Impairment | |
| In-balance-sheet items | | | | | | | | | | | |
| Receivables | $ 9,063,673 | $ 4,433,589 | $ 363,316 | $ 7,947,987 | $ 21,808,565 | $ 6,478 | $ 278,874 | $ 22,093,917 | $ 217,615 | $ 78,252 | $ 21,798,050 |
| Credit cards | - | - | - | 1,524,167 | 1,524,167 | - | 17,248 | 1,541,415 | 8,312 | 4,543 | 1,528,560 |
| Other | 9,063,673 | 4,433,589 | 363,316 | 6,423,820 | 20,284,398 | 6,478 | 261,626 | 20,552,502 | 209,303 | 73,709 | 20,269,490 |
| Loans | 345,927,442 | 657,422,104 | 177,685,706 | 74,474,536 | 1,255,509,788 | 3,533,048 | 14,995,147 | 1,274,037,983 | 4,382,612 | 10,288,622 | 1,259,366,749 |

(In Thousands of New Taiwan Dollars)

| Item | December 31, 2013 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | | | Past Due But Not Impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Provision for Impairment Losses (D) | | Net (A)+(B)+(C)-(D) |
| | High | Medium | Weak | Non-ratings | Subtotal (A) | | | | Objective Evidence of Impairment | Nonobjective Evidence of Impairment | |
| In-balance-sheet items | | | | | | | | | | | |
| Receivables | $ 6,952,565 | $ 6,852,011 | $ 99,640 | $ 6,338,132 | $ 20,242,348 | $ 8,053 | $ 326,836 | $ 20,577,237 | $ 224,937 | $ 150,073 | $ 20,202,227 |
| Credit cards | - | - | - | 1,176,886 | 1,176,886 | - | 17,049 | 1,193,935 | 8,325 | 3,833 | 1,181,777 |
| Other | 6,952,565 | 6,852,011 | 99,640 | 5,161,246 | 19,065,462 | 8,053 | 309,787 | 19,383,302 | 216,612 | 146,240 | 19,020,450 |
| Loans | 328,952,917 | 593,050,431 | 163,468,777 | 47,652,528 | 1,133,124,653 | 2,623,822 | 20,629,159 | 1,156,377,634 | 5,350,999 | 8,159,470 | 1,142,867,165 |

ii. Credit quality analysis of loans neither past due nor impaired based on credit ratings of clients

**(In Thousands of New Taiwan Dollars)**

| Item | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | | |
| | High | Medium | Weak | Non-ratings | Total |
| Consumer finance | $ 66,076,032 | $ 162,493,599 | $ 150,303,725 | $ 46,931,741 | $ 425,805,097 |
| Corporation finance | 279,851,410 | 494,928,505 | 27,381,981 | 27,542,795 | 829,704,691 |
| Total | $ 345,927,442 | $ 657,422,104 | $ 177,685,706 | $ 74,474,536 | $1,255,509,788 |

**(In Thousands of New Taiwan Dollars)**

| Item | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | | |
| | High | Medium | Weak | Non-ratings | Total |
| Consumer finance | $ 70,181,163 | $ 169,154,786 | $ 138,195,149 | $ 29,762,934 | $ 407,294,032 |
| Corporation finance | 258,771,754 | 423,895,645 | 25,273,628 | 17,889,594 | 725,830,621 |
| Total | $ 328,952,917 | $ 593,050,431 | $ 163,468,777 | $ 47,652,528 | $1,133,124,653 |

iii. Credit quality analysis of non-credit financial assets

(In Thousands of New Taiwan Dollars)

| Item | December 31, 2014 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | | | Past Due But Not Impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Provision for Impairment Losses (D) | | Net (A)+(B)+(C)-(D) |
| | High | Medium | Weak | Non-ratings | Subtotal (A) | | | | Objective Evidence of Impairment | Nonobjective Evidence of Impairment | |
| Available-for-sale financial assets | $ 46,115,608 | $ - | $ - | $ - | $ 46,115,608 | $ - | $ 150,000 | $ 46,265,608 | $ 120,000 | $ - | $ 46,145,608 |
| Bonds | 43,055,919 | - | - | - | 43,055,919 | - | - | 43,055,919 | - | - | 43,055,919 |
| Stocks | 2,104,508 | - | - | - | 2,104,508 | - | 150,000 | 2,254,508 | 120,000 | - | 2,134,508 |
| Bills | 955,181 | - | - | - | 955,181 | - | - | 955,181 | - | - | 955,181 |
| Held-to-maturity financial assets | 183,637,059 | - | - | - | 183,637,059 | - | - | 183,637,059 | - | - | 183,637,059 |
| Bonds | 14,089,260 | - | - | - | 14,089,260 | - | - | 14,089,260 | - | - | 14,089,260 |
| Bills | 169,547,799 | - | - | - | 169,547,799 | - | - | 169,547,799 | - | - | 169,547,799 |
| Other financial assets | 2,737,472 | - | - | 662,870 | 3,400,342 | - | 146,314 (Note) | 3,546,656 | 146,314 | - | 3,400,342 |
| Bonds | 2,737,472 | - | - | 662,870 | 3,400,342 | - | 146,314 (Note) | 3,546,656 | 146,314 | - | 3,400,342 |

Note: Cost on the reclassification date.

(In Thousands of New Taiwan Dollars)

| Item | December 31, 2013 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | | | Past Due But Not Impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Provision for Impairment Losses (D) | | Net (A)+(B)+(C)-(D) |
| | High | Medium | Weak | Non-ratings | Subtotal (A) | | | | Objective Evidence of Impairment | Nonobjective Evidence of Impairment | |
| Available-for-sale financial assets | $ 37,755,819 | $ - | $ - | $ 98,292 | $ 37,854,111 | $ - | $ 150,000 | $ 38,004,111 | $ 120,000 | $ - | $ 37,884,111 |
| Bonds | 36,018,255 | - | - | 98,292 | 36,116,547 | - | - | 36,116,547 | - | - | 36,116,547 |
| Stocks | 1,737,564 | - | - | - | 1,737,564 | - | 150,000 | 1,887,564 | 120,000 | - | 1,767,564 |
| Held-to-maturity financial assets | 226,989,182 | - | - | - | 226,989,182 | - | - | 226,989,182 | - | - | 226,989,182 |
| Bonds | 11,147,533 | - | - | - | 11,147,533 | - | - | 11,147,533 | - | - | 11,147,533 |
| Bills | 215,841,649 | - | - | - | 215,841,649 | - | - | 215,841,649 | - | - | 215,841,649 |
| Other financial assets | 2,570,678 | - | - | 1,240,845 | 3,811,523 | - | 137,578 (Note) | 3,949,101 | 137,578 | - | 3,811,523 |
| Bonds | 2,570,678 | - | - | 1,240,845 | 3,811,523 | - | 137,578 (Note) | 3,949,101 | 137,578 | - | 3,811,523 |

Note: Cost on the reclassification date.

g) Aging analysis of financial assets that are past due but not impaired

**(In Thousands of New Taiwan Dollars)**

| Item | December 31, 2014 | | |
|---|---|---|---|
| | Past Due Up to One Month | Past Due Over One Month | Total |
| Loans | | | |
| Consumer finance | $ 1,583,076 | $ 307,748 | $ 1,890,824 |
| Corporation finance | 1,634,350 | 7,874 | 1,642,224 |

**(In Thousands of New Taiwan Dollars)**

| Item | December 31, 2013 | | |
|---|---|---|---|
| | Past Due Up to One Month | Past Due Over One Month | Total |
| Loans | | | |
| Consumer finance | $ 2,020,418 | $ 473,743 | $ 2,494,161 |
| Corporation finance | 118,370 | 11,291 | 129,661 |

4) Liquidity risk

a) The definition of liquidity risk

Liquidity risk is the potential loss that the Group may suffer due to inability to liquidate assets or raise enough funds in reasonable time to perform obligations when due and to meet the demands of assets growth.

b) Liquidity risk management policy

According to the Group’s liquidity risk management policy, the Group clearly sets various indicators and limits for liquidity risk. The responsible department should implement operation procedures for funding liquidity, monitor and prepare maturity analysis periodically to assess liquidity risk. In addition, the responsible department should also report to related departments and Asset and Liability Committee to enable them to make appropriate adjustments to meet the needs of liquidity. Related information about liquidity risk assessment should be reported to the Board of Directors to let high-level management understand Chang Hwa Bank’s funding liquidity.

As of December 31, 2014 and 2013, the ratio of liquidity reserve is 16.47% and 19.55%, respectively. Since the capital and working funds are deemed sufficient to meet the cash flow needs for performance of all contracted obligations, liquidity risk is not considered to be significant.

c) Maturity analysis of non-derivative financial assets and liabilities

The Group adopted appropriate grouping methods, which are based on the nature of non-derivative financial assets and liabilities, to do maturity analysis in order to assess liquidity. The maturity analysis is presented as follows:

**(In Thousands of New Taiwan Dollars)**

| Item | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Major maturity funds inflows | | | | | | |
| Cash and cash equivalents | $ 21,647,950 | $ - | $ - | $ - | $ - | $ 21,647,950 |
| Due from the Central Bank and call loans to other banks | 22,828,320 | 8,283,125 | 5,310,902 | 8,238,620 | 21,677,966 | 66,338,933 |
| Financial assets at fair value through profit or loss | 29,091,209 | - | - | - | - | 29,091,209 |
| Receivables | 16,607,082 | 1,252,064 | 206,381 | 196,465 | 234,588 | 18,496,580 |
| Loans | 103,859,261 | 94,885,236 | 76,439,745 | 121,097,105 | 623,692,442 | 1,019,973,789 |
| Available-for-sale financial assets | - | 251,250 | - | 302,273 | 35,286,397 | 35,839,920 |
| Held-to-maturity financial assets | 120,400,000 | 6,100,000 | 300,000 | 920,000 | 14,017,401 | 141,737,401 |
| Debts instrument without active market | - | - | - | - | 2,100,000 | 2,100,000 |
| Financial assets carried at cost | - | - | - | - | 4,167,009 | 4,167,009 |
| Other maturity funds inflow items | - | - | - | - | 12,178,552 | 12,178,552 |
| | 314,433,822 | 110,771,675 | 82,257,028 | 130,754,463 | 713,354,355 | 1,351,571,343 |
| Major maturity funds outflows | | | | | | |
| Due to the Central Bank and banks | 420,812 | 825,181 | 349,755 | 2,137,686 | - | 3,733,434 |
| Due to the Central Bank and call loans to other banks | 3,110,000 | 15,000 | - | - | - | 3,125,000 |
| Securities sold under repurchase agreements | 2,542,487 | 1,984,207 | - | - | - | 4,526,694 |
| Payables | 29,163,609 | 1,780,377 | 573,307 | 1,276,843 | 762,473 | 33,556,609 |
| Deposits and remittances | 135,909,225 | 129,037,229 | 120,878,354 | 261,321,562 | 528,501,310 | 1,175,647,680 |
| Bank notes payable | - | - | 5,000,000 | 8,350,000 | 30,000,000 | 43,350,000 |
| Other maturity funds outflows items | 10,497 | 29,436 | 26,197 | 189,233 | 4,858,735 | 5,114,098 |
| | 171,156,630 | 133,671,430 | 126,827,613 | 273,275,324 | 564,122,518 | 1,269,053,515 |
| Gap | $ 143,277,192 | $ (22,899,755) | $ (44,570,585) | $ (142,520,861) | $ 149,231,837 | $ 82,517,828 |

Note: The amounts listed above were the position in N.T. dollars of the Group.

(In Thousands of New Taiwan Dollars)

| Item | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Major maturity funds inflows | | | | | | |
| Cash and cash equivalents | $ 17,393,099 | $ - | $ - | $ - | $ - | $ 17,393,099 |
| Due from the Central Bank and call loans to other banks | 20,748,292 | 8,409,207 | 5,202,987 | 8,124,137 | 15,730,936 | 58,215,559 |
| Financial assets at fair value through profit or loss | 52,119,328 | - | - | - | - | 52,119,328 |
| Receivables | 10,562,533 | 1,016,109 | 137,745 | 156,408 | 226,057 | 12,098,852 |
| Loans | 74,317,277 | 92,692,524 | 66,746,798 | 106,989,256 | 603,767,894 | 944,513,749 |
| Available-for-sale financial assets | - | - | - | 411,746 | 26,203,607 | 26,615,353 |
| Held-to-maturity financial assets | 164,400,000 | 9,300,000 | 700,000 | 2,199,495 | 10,949,691 | 187,549,186 |
| Debts instrument without active market | - | - | - | - | 2,100,000 | 2,100,000 |
| Financial assets carried at cost | - | - | - | - | 4,181,203 | 4,181,203 |
| Other maturity funds inflow items | - | - | - | - | 11,781,786 | 11,781,786 |
| | 339,540,529 | 111,417,840 | 72,787,530 | 117,881,042 | 674,941,174 | 1,316,568,115 |
| Major maturity funds outflows | | | | | | |
| Due to the Central Bank and banks | 558,566 | 1,236,782 | 446,529 | 2,665,931 | - | 4,907,808 |
| Due to the Central Bank and call loans to other banks | 2,310,000 | 15,000 | - | - | - | 2,325,000 |
| Securities sold under repurchase agreements | 3,002,855 | 1,501,736 | - | - | - | 4,504,591 |
| Payables | 19,690,304 | 1,681,329 | 413,391 | 1,245,530 | 790,679 | 23,821,233 |
| Deposits and remittances | 135,795,522 | 133,131,512 | 117,539,333 | 257,874,397 | 499,327,588 | 1,143,668,352 |
| Bank notes payable | - | - | - | 5,000,000 | 33,350,000 | 38,350,000 |
| Other maturity funds outflows items | 12,064 | 32,956 | 5,226 | 138,902 | 4,462,458 | 4,651,606 |
| | 161,369,311 | 137,599,315 | 118,404,479 | 266,924,760 | 537,930,725 | 1,222,228,590 |
| Gap | $ 178,171,218 | $ (26,181,475) | $ (45,616,949) | $ (149,043,718) | $ 137,010,449 | $ 94,339,525 |

Note: The amounts listed above were the position in N.T. dollars of the Group.

(In Thousands of United States Dollars)

| Item | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Major maturity funds inflows | | | | | | |
| Cash and cash equivalents | $ 111,409 | $ - | $ - | $ - | $ 16,000 | $ 127,409 |
| Due from the Central Bank and call loans to other banks | 1,840,796 | 219,118 | 78,726 | 133,572 | 358,388 | 2,630,600 |
| Financial assets at fair value through profit or loss | 78,384 | - | - | - | - | 78,384 |
| Receivables | 428,204 | 61,972 | 219,519 | 1,599 | 904 | 712,198 |
| Loans | 631,592 | 869,274 | 638,031 | 352,928 | 1,531,888 | 4,023,713 |
| Available-for-sale financial assets | - | - | - | 12,521 | 15,128 | 27,649 |
| Debts instrument without active market | - | - | - | - | 4,377 | 4,377 |
| Other maturity funds inflow items | - | - | - | - | 1,980 | 1,980 |
| | 3,090,385 | 1,150,364 | 936,276 | 500,620 | 1,928,665 | 7,606,310 |
| Major maturity funds outflows | | | | | | |
| Due to the Central Bank and banks | 230 | 313 | 209 | 177 | - | 929 |
| Due to the Central Bank and call loans to other banks | 2,526,743 | 315,000 | 75,000 | 15,000 | - | 2,931,743 |
| Financial liabilities at fair value through profit or loss | - | - | - | - | 503,209 | 503,209 |
| Payables | 545,943 | 13,924 | 2,360 | 700 | 4,227 | 567,154 |
| Deposits and remittances | 1,288,224 | 728,710 | 518,390 | 778,920 | 1,699,309 | 5,013,553 |
| Other maturity funds outflows items | 36,357 | 1,705 | 880 | 286 | 2,860 | 42,088 |
| | 4,397,497 | 1,059,652 | 596,839 | 795,083 | 2,209,605 | 9,058,676 |
| Gap | $ (1,307,112) | $ 90,712 | $ 339,437 | $ (294,463) | $ (280,940) | $ (1,452,366) |

Note: The amounts listed above were the position in U.S. dollars of the Group.

(In Thousands of United States Dollars)

| Item | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Major maturity funds inflows | | | | | | |
| Cash and cash equivalents | $ 318,562 | $ 49,000 | $ - | $ - | $ - | $ 367,562 |
| Due from the Central Bank and call loans to other banks | 612,215 | 135,909 | 43,590 | 10,627 | 3,159 | 805,500 |
| Financial assets at fair value through profit or loss | 146,575 | - | - | - | - | 146,575 |
| Receivables | 448,244 | 151,562 | 151,098 | 7,472 | 2,789 | 761,165 |
| Loans | 962,226 | 1,025,466 | 677,377 | 302,328 | 2,869,181 | 5,836,578 |
| Available-for-sale financial assets | 16,512 | 2,002 | 48,086 | 2,007 | 45,861 | 114,468 |
| Held-to-maturity financial assets | 2,000 | 16,000 | 19,998 | 2 | 5,998 | 43,998 |
| Debts instrument without active market | - | - | - | - | 7,526 | 7,526 |
| Other maturity funds inflow items | 16,500 | 70,000 | 30,000 | - | 249 | 116,749 |
| | 2,522,834 | 1,449,939 | 970,149 | 322,436 | 2,934,763 | 8,200,121 |
| Major maturity funds outflows | | | | | | |
| Due to the Central Bank and banks | 447,651 | 55,388 | 354 | 489 | 16,232 | 520,114 |
| Due to the Central Bank and call loans to other banks | 1,852,776 | 635,000 | 35,000 | - | 17,000 | 2,539,776 |
| Payables | 530,561 | 18,676 | 2,753 | 728 | 6,000 | 558,718 |
| Deposits and remittances | 1,428,866 | 737,573 | 553,487 | 886,777 | 1,981,319 | 5,588,022 |
| Other maturity funds outflows items | 35,894 | 814 | 421 | 137 | 1,368 | 38,634 |
| | 4,295,748 | 1,447,451 | 592,015 | 888,131 | 2,021,919 | 9,245,264 |
| Gap | $ (1,772,914) | $ 2,488 | $ 378,134 | $ (565,695) | $ 912,844 | $ (1,045,143) |

Note: The amounts listed above were the position in U.S. dollars of the Group.

d) Maturity analysis of derivative financial assets and liabilities

The derivative instruments held by the Group, except for interest rate swaps with leveraging effects, have very little probabilities of failing to be sold with reasonable prices in the market, and thus have very low liquidity risks.

(New Taiwan Dollars and Foreign Currencies Combined In Thousands of New Taiwan Dollars)

| Item | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days- 1 Year | Over 1 Year | Total |
| Foreign currency derivative instruments | | | | | | |
| Outflows | $ 83,601,546 | $ 163,776,862 | $ 56,123,085 | $ 29,455,426 | $ 3,642 | $ 332,960,561 |
| Inflows | 84,102,499 | 163,933,168 | 55,753,971 | 29,252,417 | 3,374 | 333,045,429 |
| Interest rate derivative instruments | | | | | | |
| Outflows | 8,521,916 | 8,182,858 | 18,711,710 | 20,434,448 | 9,893,513 | 65,744,445 |
| Inflows | 9,186,737 | 8,546,054 | 18,233,314 | 20,634,270 | 9,931,305 | 66,531,680 |
| Total outflows | $ 92,123,462 | $ 171,959,720 | $ 74,834,795 | $ 49,889,874 | $ 9,897,155 | $ 398,705,006 |
| Total inflows | $ 93,289,236 | $ 172,479,222 | $ 73,987,285 | $ 49,886,687 | $ 9,934,679 | $ 399,577,109 |

(New Taiwan Dollars and Foreign Currencies Combined In Thousands of New Taiwan Dollars)

| Item | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days- 1 Year | Over 1 Year | Total |
| Foreign currency derivative instruments | | | | | | |
| Outflows | $ 72,864,393 | $ 79,662,239 | $ 25,970,245 | $ 19,155,795 | $ 6,849 | $ 197,659,521 |
| Inflows | 73,136,049 | 79,780,500 | 26,043,694 | 19,236,377 | 6,787 | 198,203,407 |
| Interest rate derivative instruments | | | | | | |
| Outflows | 5,062,786 | 7,311,740 | 8,229,789 | 15,428,332 | 30,221,683 | 66,254,330 |
| Inflows | 5,012,074 | 7,292,387 | 8,195,182 | 15,486,422 | 30,450,667 | 66,436,732 |
| Total outflows | $ 77,927,179 | $ 86,973,979 | $ 34,200,034 | $ 34,584,127 | $ 30,228,532 | $ 263,913,851 |
| Total inflows | $ 78,148,123 | $ 87,072,887 | $ 34,238,876 | $ 34,722,799 | $ 30,457,454 | $ 264,640,139 |

e) Maturity analysis of off-balance-sheet items

Group's off-balance-sheet items - irrevocable loans, guarantees, letters of credit - presented based on the residual time from the balance sheet date to the maturity date were as follows:

(In Thousands of New Taiwan Dollars)

| Item | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Irrevocable loan commitments issued | $ 54,591,641 | $ 3,728,332 | $ 4,101,908 | $ 6,391,152 | $ 16,675,268 | $ 85,488,301 |
| Credit card credit commitment | - | 198 | 617 | 806 | 264,634 | 266,255 |
| Letters of credit issued yet unused | 25,777,063 | 142,223 | 24,721 | - | - | 25,944,007 |
| Guarantees | 30,273,091 | 107,922 | 56,058 | 718,900 | 374,430 | 31,530,401 |
| | $ 110,641,795 | $ 3,978,675 | $ 4,183,304 | $ 7,110,858 | $ 17,314,332 | $ 143,228,964 |

(In Thousands of New Taiwan Dollars)

| Item | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Irrevocable loan commitments issued | $ 98,059,723 | $ 1,876,721 | $ 5,671,705 | $ 7,451,285 | $ 23,623,355 | $ 136,682,789 |
| Credit card credit commitment | - | 2,597 | 4,399 | 4,086 | 141,958 | 153,040 |
| Letters of credit issued yet unused | 23,894,227 | 164,143 | 3,553 | 12,185 | - | 24,074,108 |
| Guarantees | 27,383,180 | 13,139 | 34,050 | 757,440 | 573,438 | 28,761,247 |
| | $ 149,337,130 | $ 2,056,600 | $ 5,713,707 | $ 8,224,996 | $ 24,338,751 | $ 189,671,184 |

## 35. OTHER DISCLOSURES OF FINANCIAL INSTITUTION

a. Asset quality

| Business Type \ Item | | | December 31, 2014 | | | | | December 31, 2013 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Non-Performing Loans (Note a) | Loans | Non-performing Loans Ratio (Note b) | Allowance For Loan Losses | Coverage Ratio (Note c) | Non-Performing Loans (Note a) | Loans | Non-performing Loans Ratio (Note b) | Allowance For Loan Losses | Coverage Ratio (Note c) |
| Corporate finance | Secured | | $ 1,402,240 | $ 357,226,030 | 0.39% | $ 4,872,879 | 347.51% | $ 2,405,097 | $ 337,381,910 | 0.71% | $ 8,207,555 | 341.26% |
| | Unsecured | | 492,682 | 487,937,964 | 0.10% | 6,223,059 | 1,263.10% | 159,173 | 407,812,214 | 0.04% | 2,674,310 | 1,680.13% |
| Consumer finance | Mortgage loans (Note d) | | 548,640 | 289,373,226 | 0.19% | 2,415,574 | 440.28% | 693,182 | 286,783,204 | 0.24% | 1,647,005 | 237.60% |
| | Cash cards (Note h) | | - | - | - | - | - | - | - | - | - | - |
| | Credit loans (Note e) | | 11,159 | 1,466,798 | 0.76% | 21,002 | 188.21% | 5,212 | 1,593,904 | 0.33% | 22,743 | 436.34% |
| | Others (Note f) | Secured | 368,982 | 136,403,228 | 0.27% | 1,123,712 | 304.54% | 398,447 | 121,101,252 | 0.33% | 918,309 | 230.47% |
| | | Unsecured | 11,653 | 1,630,737 | 0.71% | 15,008 | 128.79% | 16,407 | 1,705,150 | 0.96% | 40,547 | 247.14% |
| Total | | | 2,835,356 | 1,274,037,983 | 0.22% | 14,671,234 | 517.44% | 3,677,518 | 1,156,377,634 | 0.32% | 13,510,469 | 367.38% |

| Business Type \ Item | December 31, 2014 | | | | | December 31, 2013 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Non-Performing Loans (Note a) | Loans | Non-performing Loans Ratio (Note b) | Allowance For Loan Losses | Coverage Ratio (Note c) | Non-Performing Loans (Note a) | Loans | Non-performing Loans Ratio (Note b) | Allowance For Loan Losses | Coverage Ratio (Note c) |
| Credit card | 3,056 | 1,456,963 | 0.21% | 14,898 | 487.50% | 3,072 | 1,127,237 | 0.27% | 13,823 | 449.97% |
| No recourse receivable factoring (Note g) | - | 9,352,207 | - | 28,495 | - | - | 9,691,225 | - | 85,236 | - |

| Business Type \ Item | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Non-performing Loans Exempted from Reporting | Non-performing Receivables Exempted from Reporting | Non-performing Loans Exempted from Reporting | Non-performing Receivables Exempted from Reporting |
| Negotiated loans transacted in accordance with the agreement and exempted from reporting as non-performing loans (Note i) | $ 125 | $ 4,054 | $ 516 | $ 5,242 |
| Negotiated accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing receivables (Note j) | 519 | 7,332 | 8,840 | 7,288 |
| Total | 644 | 11,386 | 9,356 | 12,530 |

Note a: Nonperforming loans are classified in accordance with the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non-performing Loans and Bad Debts issued by MOF. Non-performing loans of credit cards are defined in the Letter issued by the Banking Bureau on July 6, 2005. (Ref. No. Jin-Guan-Yin (4) 0944000378).

Note b: Nonperforming loans ratio = Nonperforming loan ÷ Loans
Nonperforming loans of credit card ratio = Nonperforming loans of credit cards ÷ Accounts receivable

Note c: Coverage ratio of allowances for loan losses = Allowances for loan losses ÷ Nonperforming loans
Coverage ratio of allowance for loan losses of credit card = Allowance for loan losses of credit card ÷ Nonperforming loans of credit cards

Note d: Mortgage loans are for borrowers to build or repair buildings, allowing the borrowers, spouse or minor children to fully use their buildings as collateral and to mortgage their rights to financial institutions.

Note e: Credit loans are defined in the Letter issued by the Banking Bureau on December 19, 2005 (Ref. No. Jin-Guan-Yin (4) 09440010950), excluding credit loans of credit cards and cash cards.

Note f: The other consumer financial businesses are defined as secured or unsecured consumer financial businesses, excluding mortgage loans, cash cards, credit loans and credit cards.

Note g: In accordance with the Letter issued by the Banking Bureau on July 19, 2005 (Ref. No. Jin-Guan-Yin (5) 094000494) non-recourse receivable factorings are not defined as non-performing loans until compensation from factors or insurance companies are ascertained to be non-recoverable.

Note h: The Group does not engage in cash card business.

Note i: Negotiated loans and accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing loans are disclosed in accordance with the Letter issued by Banking Bureau on April 25, 2006 (Ref. No. Jin-Guan-Yin (1) 09510001270).

Note j: Loans and receivables transacted in accordance with debt clearance and renewal regulation and exempted from reporting as non-performing loans or receivables are disclosed in accordance with the Letter issued by Banking Bureau on September 15, 2008 (Ref. No. Jin-Guan-Yin (1) 09700318940).

b. Concentration of credit risk

| December 31, 2014 | | | |
|---|---|---|---|
| **Rank (Note a)** | **Transaction Party (Note b)** | **Loans (Note c)** | **As Proportion of Net Equity (%)** |
| 1 | A Corporation (railway transportation industry) | $ 34,032,955 | 28.54 |
| 2 | B Group (petroleum and coal products manufacturing industry) | 32,559,715 | 27.31 |
| 3 | C Group (airline industry) | 18,727,381 | 15.71 |
| 4 | D Group (synthesis construction industry) | 10,560,310 | 8.86 |
| 5 | L Group (marine transportation industry) | 10,435,533 | 8.75 |
| 6 | E Group (liquid crystal panel and components manufacturing industry) | 7,473,073 | 6.27 |
| 7 | F Group (steel manufacturing industry) | 7,154,258 | 6.00 |
| 8 | G Group (securities firms industry) | 6,683,264 | 5.60 |
| 9 | H Group (steel manufacturing industry) | 6,081,829 | 5.10 |
| 10 | I Group (financial intermediation industry) | 5,802,860 | 4.87 |

| December 31, 2013 | | | |
|---|---|---|---|
| **Rank (Note a)** | **Transaction Party (Note b)** | **Loans (Note c)** | **As Proportion of Net Equity (%)** |
| 1 | A Corporation (railway transportation industry) | $ 34,578,191 | 30.65 |
| 2 | B Group (other chemical products manufacturing industry) | 32,993,746 | 29.24 |
| 3 | C Group (airline industry) | 17,412,359 | 15.43 |
| 4 | E Group (liquid crystal panel and components manufacturing industry) | 9,263,092 | 8.21 |
| 5 | L Group (marine transportation industry) | 8,533,283 | 7.56 |
| 6 | D Group (synthesis construction industry) | 7,952,032 | 7.05 |
| 7 | F Group (steel manufacturing industry) | 7,136,485 | 6.33 |
| 8 | J Group (liquid crystal panel and components manufacturing industry) | 6,643,097 | 5.89 |
| 9 | K Group (computers manufacturing industry) | 6,639,490 | 5.88 |
| 10 | I Group (financial intermediation industry) | 6,208,180 | 5.50 |

Note a: Sorted by the balance of loans on December 31, 2014 and 2013, excluding government or state-run business. The number of transaction party which belongs to a group business was included in the balance of group business.

Note b: Transaction party is in accordance with article 6 of the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings.

Note c: Loans include import and export bill negotiations, bills discounted, overdraft, short-term loan, short-term secured loan, receivable financing, medium-term loan, medium-term secured loan, long-term loan, long-term secured loan, delinquent loans, inward remittances, factoring without recourse, acceptance, and guarantee.

c. Interest rate sensitivity

**(In Thousands of New Taiwan Dollars; %)**

| Item | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | 1-90 Days | 91-180 Days | 181 Days-1 Year | More Than 1 Year | Total |
| Interest-sensitive assets | $ 1,179,349,371 | $ 27,813,746 | $ 16,411,216 | $ 88,773,809 | $ 1,312,348,142 |
| Interest-sensitive liabilities | 336,383,407 | 725,291,837 | 102,532,490 | 28,050,381 | 1,192,258,115 |
| Interest sensitivity gap | 842,965,964 | (697,478,091) | (86,121,274) | 60,723,428 | 120,090,027 |
| Net worth | | | | | 102,839,410 |
| Ratio of interest-sensitive assets to liabilities | | | | | 110.07% |
| Ratio of interest sensitivity gap to net assets | | | | | 116.77% |

**(In Thousands of New Taiwan Dollars; %)**

| Item | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | 1-90 Days | 91-180 Days | 181 Days-1 Year | More Than 1 Year | Total |
| Interest-sensitive assets | $ 1,168,378,854 | $ 23,426,906 | $ 5,843,217 | $ 90,293,017 | $ 1,287,941,994 |
| Interest-sensitive liabilities | 351,416,200 | 679,283,165 | 93,022,340 | 33,499,025 | 1,157,220,730 |
| Interest sensitivity gap | 816,962,654 | (655,856,259) | (87,179,123) | 56,793,992 | 130,721,264 |
| Net worth | | | | | 105,205,918 |
| Ratio of interest-sensitive assets to liabilities | | | | | 111.30% |
| Ratio of interest sensitivity gap to net assets | | | | | 124.25% |

Note a: The amounts listed above include accounts in N.T. dollars only (i.e., excluding foreign currency) for both head office and domestic branches.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities (N.T. dollars only) = $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$

**(In Thousands of U.S. Dollars; %)**

| Item | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | 1-90 Days | 91-180 Days | 181 Days-1 Year | More Than 1 Year | Total |
| Interest-sensitive assets | $ 9,676,619 | $ 1,054,214 | $ 222,326 | $ 91,951 | $ 11,045,110 |
| Interest-sensitive liabilities | 10,364,653 | 561,038 | 694,267 | 503,277 | 12,123,235 |
| Interest sensitivity gap | (688,034) | 493,176 | (471,941) | (411,326) | (1,078,125) |
| Net worth | | | | | 334,356 |
| Ratio of interest-sensitive assets to liabilities | | | | | 91.11% |
| Ratio of interest sensitivity gap to net assets | | | | | (322.45%) |

**(In Thousands of U.S. Dollars; %)**

| Item | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | 1-90 Days | 91-180 Days | 181 Days-1 Year | More Than 1 Year | Total |
| Interest-sensitive assets | $ 8,551,732 | $ 868,616 | $ 64,043 | $ 65,159 | $ 9,549,550 |
| Interest-sensitive liabilities | 9,770,760 | 334,531 | 529,045 | - | 10,634,336 |
| Interest sensitivity gap | (1,219,028) | 534,085 | (465,002) | 65,159 | (1,084,786) |
| Net worth | | | | | 69,681 |
| Ratio of interest-sensitive assets to liabilities | | | | | 89.80% |
| Ratio of interest sensitivity gap to net assets | | | | | (1,556.79%) |

Note a: The amounts listed above include accounts in U.S. dollars only for domestic branches, OBU, and overseas branches, excluding contingent assets and contingent liabilities.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities = $\dfrac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$ (U.S. dollars only)

d. Profitability

| Item | | December 31 | |
|---|---|---|---|
| | | 2014 | 2013 |
| Return on total assets | Pretax | 0.71% | 0.65% |
| | After tax | 0.62% | 0.53% |
| Return on net worth | Pretax | 10.73% | 9.89% |
| | After tax | 9.41% | 8.12% |
| Profit margin | | 41.02% | 37.02% |

Note a: Return on total assets = $\dfrac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net worth = $\dfrac{\text{Income before (after) tax}}{\text{Average net worth}}$

Note c: Profit margin = $\dfrac{\text{Income after tax}}{\text{Gross income}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2014 and 2013, respectively.

e. Maturity analysis of assets and liabilities

**(In Thousands of New Taiwan Dollars)**

| | Total | December 31, 2014 | | | | |
|---|---|---|---|---|---|---|
| | | Period Remaining until Due Date and Amount Due | | | | |
| | | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | More Than 1 year |
| Major maturity cash inflows | $ 1,541,114,876 | $ 325,779,244 | $ 224,105,330 | $ 109,323,335 | $ 142,141,218 | $ 739,765,749 |
| Major maturity cash outflows | 2,024,224,204 | 231,955,500 | 314,402,125 | 216,574,959 | 437,606,373 | 823,685,247 |
| Gap | (483,109,328) | 93,823,744 | (90,296,795) | (107,251,624) | (295,465,155) | (83,919,498) |

**(In Thousands of New Taiwan Dollars)**

| | Total | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Period Remaining until Due Date and Amount Due | | | | | |
| | | 0-10 Days | 11-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | More Than 1 year |
| Major maturity cash inflows | $ 1,444,031,044 | $ 224,709,214 | $ 134,150,085 | $ 166,187,363 | $ 84,145,257 | $ 125,890,202 | $ 708,948,923 |
| Major maturity cash outflows | 1,548,525,231 | 76,899,117 | 123,777,611 | 201,658,227 | 150,616,248 | 310,053,027 | 685,521,001 |
| Gap | (104,494,187) | 147,810,097 | 10,372,474 | (35,470,864) | (66,470,991) | (184,162,825) | 23,427,922 |

Note: The amounts listed above include accounts in N.T. dollars only (i.e., excluding foreign currency) for both head office and domestic branches.

**(In Thousands of U.S. Dollars)**

| | Total | December 31, 2014 | | | | |
|---|---|---|---|---|---|---|
| | | Period Remaining until Due Date and Amount Due | | | | |
| | | 1-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | More Than 1 year |
| Major maturity cash inflows | $ 17,339,984 | $ 5,908,618 | $ 3,345,898 | $ 2,195,883 | $ 1,727,144 | $ 4,162,441 |
| Major maturity cash outflows | 21,793,950 | 7,579,148 | 3,191,320 | 2,928,002 | 3,318,447 | 4,777,033 |
| Gap | (4,453,966) | (1,670,530) | 154,578 | (732,119) | (1,591,303) | (614,592) |

(In Thousands of U.S. Dollars)

| | Total | December 31, 2013 | | | | |
|---|---|---|---|---|---|---|
| | | Period Remaining until Due Date and Amount Due | | | | |
| | | 1-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | More Than 1 year |
| Major maturity cash inflows | $ 14,784,255 | $ 5,588,825 | $ 2,560,836 | $ 1,755,876 | $ 1,224,695 | $ 3,654,023 |
| Major maturity cash outflows | 16,383,306 | 7,303,441 | 2,679,150 | 1,167,692 | 1,513,972 | 3,719,051 |
| Gap | (1,599,051) | (1,714,616) | (118,314) | 588,184 | (289,277) | (65,028) |

Note: The amounts listed above include accounts in U.S. dollars for head office, domestic branches, and OBU.

f. Sale of non-performing loans

| Transaction Date | Counterparty | Composition of NPLs (Note a) | Book Value (Note b) | Sales Price | Gain on Disposal | Agreement with Added Terms | Relationship |
|---|---|---|---|---|---|---|---|
| 2014.01.29 | JPMorgan Chase Bank N.A. | Ship mortgage loan | $ 60,575 | $ 128,349 | $ 67,774 | None | None |
| 2014.01.29 | JPMorgan Chase Bank N.A. | Ship mortgage loan | 49,558 | 107,866 | 58,308 | None | None |
| 2014.01.29 | JPMorgan Chase Bank N.A. | Ship mortgage loan | 49,475 | 106,238 | 56,763 | None | None |
| 2014.01.29 | JPMorgan Chase Bank N.A. | Ship mortgage loan | 67,342 | 146,899 | 79,557 | None | None |
| 2014.01.29 | JPMorgan Chase Bank N.A. | Ship mortgage loan | 67,301 | 146,608 | 79,307 | None | None |
| 2014.02.24 | Deutsche Bank AG London Branch | Ship mortgage loan | 73,029 | 211,903 | 138,874 | None | None |
| 2014.02.24 | Deutsche Bank AG London Branch | Ship mortgage loan | 47,703 | 137,011 | 89,308 | None | None |
| 2014.03.17 | Macquarie Bank Limited | Ship mortgage loan | 82,847 | 232,661 | 149,814 | None | None |

Note a: Composition of NPLS including, credit card, debit card, mortgage loan receivable finance, etc.

Note b: Book value = Original loan balance - Allowance

g. Trust accounts

Under Article 3 of the Trust Law, the Group can offer trust services. The items and amounts of trust accounts as of December 31, 2014 and 2013 were as follows:

| | December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Special purpose trust accounts - domestic | $ 26,318,558 | $ 30,240,210 |
| Special purpose trust accounts - foreign | 79,560,810 | 72,023,190 |
| Insurance trust | 1,049 | 1,935 |
| Retirement and breeds trust | 231,781 | 314,804 |
| Umbilical-cord-blood trust | 7,131,930 | 6,501,597 |
| Money claim and guarantee trust | 1,927,018 | 2,488,215 |
| Marketable securities trust | 906,235 | 664,112 |
| Real estate trust | 8,876,078 | 5,496,290 |
| Securities under custody | 128,055,702 | 130,231,242 |
| | $ 253,009,161 | $ 247,961,595 |

h. Disclosures on trust assets and liabilities and assets register as required by Enforcement Rules of ROC Trust Law Article 17 were as follows:

**Balance Sheet of Trust**

| Trust Assets | December 31 2014 | December 31 2013 |
|---|---|---|
| Bank deposits | $ 3,158,314 | $ 4,452,810 |
| Insurance claims | 93,200 | 104,200 |
| Financial assets | | |
| Common stocks | 912,983 | 548,513 |
| Mutual funds | 110,135,430 | 104,769,146 |
| Adjustments | - | 82,130 |
| Bonds | 1,708,405 | 198,260 |
| Adjustments - common stock | 82,432 | - |
| Adjustments - mutual funds | (8,026) | - |
| Adjustments - bonds | 9,584 | - |
| Interest receivable | 11,167 | 3,302 |
| Dividends receivable | 11,597 | 23,009 |
| Receivable from disposal of securities | 172,016 | 477 |
| Land | 4,276,701 | 5,274,318 |
| Buildings | 572,814 | 580,159 |
| Construction in progress | 3,816,842 | 1,694,029 |
| Securities under custody | 128,055,702 | 130,231,242 |
| Total trust assets | $ 253,009,161 | $ 247,961,595 |

| Trust Liabilities | December 31 2014 | December 31 2013 |
|---|---|---|
| Trust capital | | |
| Money trust | $ 115,924,921 | $ 112,208,260 |
| Insurance claims | 93,200 | 104,200 |
| Marketable securities trust | 817,760 | 558,768 |
| Real estate trust | 8,892,449 | 5,641,481 |
| Securities under custody payable | 128,055,702 | 130,231,242 |
| Administration payable | | |
| Supervision payable | 110 | 137 |
| Income taxes payable | 1,117 | 328 |
| Profit and loss | | |
| Realized capital through profit and loss | 3,826 | 5,163 |
| Investment profit and loss | 130,830 | 132,367 |
| Realized capital gain - mutual funds | 10,391 | 14,137 |
| Unrealized capital gain - mutual funds | 14,276 | 10,362 |
| Unrealized capital gain - bonds | 18,626 | - |
| Unrealized capital gain - common stocks | 95,128 | 107,886 |
| Realized capital loss - mutual funds | (1,370) | (10,571) |
| Realized capital gain - bonds | (270) | - |
| Unrealized capital loss - mutual funds | (15,689) | (9,632) |
| Unrealized capital loss - common stocks | (12,697) | (26,407) |
| Unrealized capital loss - bonds | (9,043) | - |
| Unappropriated retained earnings | (1,085,364) | (1,102,188) |
| Interests and dividends revenues | 141,102 | 132,796 |
| Other expenses | (65,844) | (36,734) |
| Total trust liabilities | $ 253,009,161 | $ 247,961,595 |

## Trust Assets Register

| Investments | December 31 2014 | December 31 2013 |
|---|---|---|
| Bank deposits | $ 3,158,314 | $ 4,452,810 |
| Insurance claims | 93,200 | 104,200 |
| Financial assets | | |
| Common stocks | 995,415 | 629,992 |
| Mutual funds | 110,127,404 | 104,769,797 |
| Bonds | 1,717,989 | 198,260 |
| Land | 4,276,701 | 5,274,318 |
| Buildings | 572,814 | 580,159 |
| Construction in progress | 3,816,842 | 1,694,029 |
| Others | 194,780 | 26,788 |
| Securities under custody | 128,055,702 | 130,231,242 |
| Total trust assets | $ 253,009,161 | $ 247,961,595 |

**Income Statement of Trust**

| Investments | Years Ended December 31 2014 | 2013 |
|---|---|---|
| Revenue | | |
| Interest income | $ 47,274 | $ 15,566 |
| Dividends | 42,715 | 65,610 |
| Rental revenues | 51,113 | 51,620 |
| Gain on mutual funds | 7,918 | 6,057 |
| | 149,020 | 138,853 |
| Expense | | |
| Maintenance | (1,523) | (2,905) |
| Tax expense | (3,916) | (1,544) |
| Others | (60,405) | (32,285) |
| | (65,844) | (36,734) |
| Realized capital gain - mutual funds | 10,391 | 14,137 |
| Unrealized capital gain - mutual funds | 14,276 | 10,362 |
| Unrealized capital gain - quoted stocks | 95,128 | 107,886 |
| Unrealized capital gain - bonds | 18,626 | - |
| Realized capital gain - bonds | (270) | - |
| Unrealized capital loss - bonds | (9,042) | - |
| Realized capital loss - mutual funds | (1,369) | (10,571) |
| Unrealized capital loss - mutual funds | (15,689) | (9,632) |
| Unrealized capital loss - quoted stocks | (12,697) | (26,407) |
| | $ 182,530 | $ 187,894 |

## 36. RELATED-PARTY TRANSACTIONS

a. Related parties and their relationships with the Group

| Name | Relationship |
|---|---|
| Direct, supervisor and managers and the relatives | CHB's director, supervisor and managers and the relatives |
| Taishin Financial Holding | CHB's corporate director |
| Taishin Bank | Owned by the same parent company |
| Mega Bank | Its director is the vice general manager's spouse of the Bank (became non-related party after the third quarter of 2014) |
| The Export-Import Bank | Its director is Chang Hwa Bank's corporate director |
| Land Bank | Same as above |
| Taiwan Business Bank | Same as above |
| First Financial Holding | Same as above |
| Nan Ya Plastics | Its director is Taishin Financial Holding's independent director (became non-related party after December 9, 2014) |
| Aero Win Technology Corp. ("Aero Win Technology") | Its supervisor is Taishin Securities B's independent director (became non-related party after December 9, 2014) |
| Taiwan High Speed Rail | Its director is the corporate supervisor of Chang Hwa Bank (became non-related party after December 9, 2014) |
| China Airlines | Its director is the corporate supervisor of Chang Hwa Bank (became non-related party after December 9, 2014) |
| KRTC | Same as above |

(Continued)

| Name | Relationship |
| --- | --- |
| CyberSoft Digital Service Corp. (“CyberSoft Digital Service”) | Related party in substance (became non-related party after December 9, 2014) |
| Others | FSC-approved IAS 24, “Related Party Disclosures” other related parties |

(Concluded)

b. Significant transactions with related parties

1) Loans

| | Balance | Percentage of Loans (%) |
| --- | --- | --- |
| Balance as of December 31, 2014 | $ 2,233,639 | 0.18 |
| Balance as of December 31, 2013 | 38,417,445 | 3.36 |

For the years ended December 31, 2014 and 2013, interest ranged are both from 0.00% to 3.88%, interest revenues were $670,301 thousand (Note 1) and $688,773 thousand, respectively.

| | December 31, 2014 | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| | Ending Balance | Highest Amount | Normal Loans | Non-performing Loans | Collateral | Difference in Terms Between Related Parties and Non-related Parties |
| Consumer loans | | | | | | |
| 25 accounts | $ 9,273 | $ 10,168 | $ 9,273 | $ - | Credit | None |
| Self-use residential mortgage loans | | | | | | |
| 202 accounts | 1,017,282 | 1,050,755 | 1,017,282 | - | Real estate | None |
| Others | | | | | | |
| First Financial Holding | 1,100,000 | 1,100,000 | 1,100,000 | - | Credit | None |
| Other - corporate 2 accounts (Note 2) | 95,286 | 95,990 | 95,286 | - | Credit and real estate | None |
| Other - individual 16 accounts (Note 3) | 11,798 | 24,355 | 11,798 | - | Deposit | None |

| | December 31, 2013 | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| | Ending Balance | Highest Amount | Normal Loans | Non-performing Loans | Collateral | Difference in Terms Between Related Parties and Non-related Parties |
| Consumer loans | | | | | | |
| 27 accounts | $ 8,910 | $ 9,500 | $ 8,910 | $ - | Credit | None |
| Self-use residential mortgage loans | | | | | | |
| 222 accounts | 1,117,505 | 1,181,098 | 1,117,505 | - | Real estate | None |
| Others | | | | | | |
| Taiwan High Speed Rail | 33,688,317 | 33,809,373 | 33,688,317 | - | Real estate | None |
| China Airlines | 1,622,500 | 2,085,000 | 1,622,500 | - | Credit and plane | None |
| KRTC | 715,000 | 715,000 | 715,000 | - | Credit | None |
| Nan Ya Plastics | 317,192 | 317,192 | 317,192 | - | Credit and real estate | None |
| Aero Win Technology | 252,492 | 259,693 | 252,492 | - | Credit and real estate | None |
| Cybersoft Digital service | 194,000 | 204,000 | 194,000 | - | Real estate | None |
| Other - corporate 11 accounts | 492,798 | 567,141 | 492,798 | - | Credit and real estate | None |
| Other - individual 15 accounts | 8,731 | 9,713 | 8,731 | - | Deposit | None |

Note 1: Starting from December 9, 2014, Taiwan High Speed Rail is no longer a related party, so the interest revenues only included from January 1 to December 8, for $652,756 thousand.

Note 2: The balance of every corporate entity is not over $1 billion of the total ending balance.

Note 3: The balance of every single entity is not over 1% of the total ending balance.

Loans to managers for mortgage within $8,000 thousand and credit loan within $800 thousand per person bore interest at 1.54% in December 31, 2014 and 2013, respectively. The interest rates and other terms provided to the other related parties are the same as those offered to the public.

2) Guaranteed loans

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | **Ending Balance** | **Highest Amount** | **Reserve for Guarantee Liabilities** | **Interest Rate (Per Annum %)** | **Collateral** |
| Taiwan High Speed Rail | Note | $ 448,541 | - | 0.775-0.80 | Equipment |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | **Ending Balance** | **Highest Amount** | **Reserve for Guarantee Liabilities** | **Interest Rate (Per Annum %)** | **Collateral** |
| Taiwan High Speed Rail | $ 448,541 | $ 779,854 | - | 0.775-0.80 | Equipment |

Note: Became non-related party after December 9, 2014.

3) Deposits

| | **Balance** | **Percentage of Loans (%)** |
|---|---|---|
| Balance as of December 31, 2014 | $ 3,543,301 | 0.24 |
| Balance as of December 31, 2013 | 3,752,791 | 0.27 |

For the years ended December 31, 2014 and 2013, the interest rates interval were between 0.00% to 13.00%, respectively; the interest expense were $63,001 thousand and $60,178 thousand, respectively.

The interest rate for managers' deposits amounting to $480 thousand per person was 13% per annum. The part of deposit exceeding $480 thousand will earn interest calculated at the demand savings rate. The interest rates and others terms provided to the other related parties are the same as those offered to general public.

4) Call loans to banks and call loans from banks

Call loans to banks

**(In Thousands of Original Currencies)**

| Name | Department | Currency | December 31, 2014 Ending Balance | Interest Rate (Per Annum %) | Interest Revenue |
|---|---|---|---|---|---|
| Land Bank | DBU | NTD | $ 5,000 | 0.388-0.88 | $ 2,432 |
| | OBU | USD | 23,000 | 0.11-0.37 | 5 |
| | Singapore Branch | USD | 20,000 | 0.30-1.35 | 114 |
| | London Branch | USD | 20,000 | 0.30-1.20 | 63 |
| Taiwan Business Bank | Singapore Branch | USD | 20,000 | 0.85-1.58 | 202 |
| | London Branch | USD | 20,000 | 0.22-1.32 | 26 |
| | OBU | AUD | 15,000 | 2.60-2.95 | 19 |
| | Hong Kong Branch | HKD | 30,000 | 0.25 | 1 |

**(In Thousands of Original Currencies)**

| Name | Department | Currency | December 31, 2013 Ending Balance | Interest Rate (Per Annum %) | Interest Revenue |
|---|---|---|---|---|---|
| Land Bank | DBU | NTD | $ 5,000 | 0.388-0.89 | $ 2,346 |
| | Singapore Branch | USD | 30,000 | 0.30-0.82 | 74 |
| Taiwan Business Bank | Singapore Branch | USD | 20,000 | 0.80-0.85 | 67 |
| | London Branch | USD | 10,000 | 0.25-0.85 | 90 |
| | Hong Kong Branch | USD | 10,000 | 0.20-0.85 | 94 |
| Mega Bank | Singapore Branch | AUD | 22,200 | 2.75-3.24 | 1,304 |
| | London Branch | USD | 10,000 | 0.20-0.86 | 77 |
| | Hong Kong Branch | USD | 40,000 | 0.14-0.95 | 115 |
| The Export-Import Bank | London Branch | USD | 10,000 | 0.51-0.84 | 28 |

Call loans from banks

**(In Thousands of Original Currencies)**

| Name | Department | Currency | December 31, 2014 Ending Balance | Interest Rate (Per Annum %) | Interest Revenue |
|---|---|---|---|---|---|
| Land Bank | DBU | NTD | $ 5,000 | 0.388-0.89 | $ 3,799 |
| Taiwan Business Bank | London Branch | EUR | 5,000 | 0.40-1.45 | 182 |

**(In Thousands of Original Currencies)**

| Name | Department | Currency | December 31, 2013 Ending Balance | Interest Rate (Per Annum %) | Interest Revenue |
|---|---|---|---|---|---|
| Land Bank | DBU | NTD | $ 5,000 | 0.388-0.88 | $ 1,943 |
| Taiwan Business Bank | London Branch | EUR | 19,000 | 0.15-0.88 | 148 |
| Mega Bank | Singapore Branch | USD | 40,000 | 0.30-1.45 | 267 |
| | New York Branch | USD | 20,000 | 0.23-0.81 | 128 |
| | Los Angeles Branch | USD | 10,000 | 0.27-0.78 | 42 |
| | London Branch | USD | 16,000 | 0.30-0.90 | 390 |
| | Hong Kong Branch | USD | 64,000 | 0.79-1.60 | 138 |

5) Due from banks, due to banks and bank overdrafts

Due from banks

**(In Thousands of Original Currencies)**

| | | | December 31 | |
|---|---|---|---|---|
| | | | 2014 | 2013 |
| Name | Department | Currency | Ending Balance | Ending Balance |
| Land Bank | DBU | NTD | $ 171 | $ 58 |
| Taiwan Business Bank | DBU | NTD | 188 | 70 |
| Mega Bank | DBU | NTD | Note | 21,724 |
| | DBU | USD | Note | 369 |
| | DBU | AUD | Note | 688 |
| | DBU | CAD | Note | 140 |
| | DBU | JPY | Note | 16,110 |
| | New York Branch | USD | Note | 1 |
| | Los Angeles Branch | USD | Note | 21 |

Due to banks

**(In Thousands of Original Currencies)**

| | | | December 31 | |
|---|---|---|---|---|
| | | | 2014 | 2013 |
| Name | Department | Currency | Ending Balance | Ending Balance |
| The Export-Import Bank of the ROC | DBU | NTD | $ 445 | $ 641 |
| Taishin International Bank | New York Branch | USD | 37 | 45 |
| Land Bank | DBU | NTD | 277 | 277 |
| Taiwan Business Bank | DBU | NTD | - | 124 |
| Mega Bank | DBU | NTD | Note | 6 |

Bank overdrafts

**(In Thousands of Original Currencies)**

| | | | December 31 | |
|---|---|---|---|---|
| | | | 2014 | 2013 |
| **Name** | **Department** | **Currency** | **Ending Balance** | **Ending Balance** |
| Mega Bank | DBU | USD | Note | $ 572 |

Note: Mega Bank became non-related party after the third quarter of 2014.

c. Compensation of directors, supervisors and management personnel:

| | For the Year Ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Short-term benefits | $ 150,211 | $ 129,060 |
| Post employment benefits | 1,470 | 1,690 |
| | $ 151,681 | $ 130,750 |

The compensation of directors, supervisors and management personnel for the years ended December 31, 2014 and 2013 was based on the estimation in 2015 and had been approved by shareholders in their annual meeting held in 2014.

## 37. PLEDGED ASSETS

The summary of the Group's pledged assets as of December 31, 2014 and 2013 were as follows:

| | | December 31 | |
|---|---|---|---|
| **Pledged Assets** | **Description** | **2014** | **2013** |
| Available-for-sale financial assets | Government bonds | $ 952,500 | $ 1,054,900 |
| Held-to-maturity financial assets | Government bonds, corporate bonds and certificate of deposits | 41,379,764 | 37,238,183 |
| Time deposits with original maturity more than 3 months | Time deposit | 2,549,500 | 2,456,500 |
| Refundable deposits | Cash | 164,299 | 99,610 |

## 38. CONTINGENT LIABILITIES AND COMMITMENTS

a. In addition to those mentioned in Note 7, the Group had the following contingent liabilities and commitments as of December 31, 2014 and 2013:

| | December 31 | |
|---|---|---|
| | **2014** | **2013** |
| Trust liabilities | $ 253,009,161 | $ 247,961,595 |
| Unused loan commitments | 85,488,301 | 136,682,789 |
| Credit card credit commitment | 266,255 | 153,040 |
| Unused issued letters of credit | 25,944,007 | 24,074,108 |
| Guarantees issued in guarantee business | 31,530,401 | 28,761,247 |
| Repayment note and time deposit held for custody | 4,238,807 | 7,065,533 |
| Liabilities on joint loans | 314,245 | 1,127,218 |

b. A lawsuit was filed by the Ministry of Defence and Support for Armed Forces, the Islamic Republic of Iran (hereinafter referred to as "the Iranian plaintiff") in 1991 against the Group concerning a dispute in which the Iranian plaintiff sought "request for payment via electronic remittance" for the amount of US$15 million. After the Supreme Court ruled in favor of the Group on August 1, 2002, the Iranian plaintiff countered by resuming another lawsuit it had filed against the Group in 1997: "Demand for the Return of the Remittance by Way of Subrogation". On September 10, 2004, the Taipei local district court again ruled in favor of the Group with regard to the aforesaid "Demand for the Return of the Remittance by Way of Subrogation". On July 13, 2010, the Taiwan Superior Court once more ruled in favor of the Group. The Iranian party again appealed the decision to the Supreme Court on August 10, 2010. On November 4, 2010, the Supreme Court ordered the Taiwan Superior Court to review the ruling. On December 27, 2011, the Taiwan Superior Court again ruled in favor of the Group. The Iranian plaintiff, after refusing to accept the decision of the Court, appealed to the Supreme Court on January 19, 2012. On July 31, 2012, the Supreme Court ordered the Taiwan Superior Court to review the ruling. On September 24, 2013, the Taiwan Superior Court again ruled in favor of the Group. The Iranian plaintiff appealed to the Supreme Court again on October 16, 2013. On October 16, 2014, the Supreme Court ruled in favor of the Group. The Iranian plaintiff appealed to the Supreme Court again on November 28, 2014. At present, the lawsuit remains under review by the Supreme Court.

c. Damagers amounted to $46,401 thousand between Chang Hwa Bank and TDK Corporation currently in trial in Taiwan Taipei District Court. The verdict is still pending.

## 39. DISCLOSURES UNDER STATUTORY REQUIREMENTS

a. Material transactions

According to Guidelines Governing the Preparation of Financial Reports by Public Banks Rule 16, the disclosure of related information was as follows:

| No. | Item | Explanation |
|---|---|---|
| 1 | Accumulated purchases and sales balance of specific investees' marketable security over NT$300 million or 10% of outstanding capital as of December 31, 2014 | None |
| 2 | Acquisition of fixed assets over NT$300 million or 10% of outstanding capital as of December 31, 2014 | None |
| 3 | Disposal of fixed assets over NT$300 million or 10% of outstanding capital as of December 31, 2014 | None |
| 4 | Discount on fees income from related parties over NT$5 million | None |
| 5 | Receivables from related parties over NT$300 million or 10% of outstanding capital | None |
| 6 | Sale of NPL | Note 35 |
| 7 | Securitized instruments and related assets which are in accordance with the Statute for Financial Assets Securitization and the Statute for Real Estate Securitization | None |
| 8 | Other significant transactions which may affect decisions of the users of the consolidated financial statements | None |

b. Information on the Group's Investees

| No. | Item | Explanation |
|---|---|---|
| 1 | Investees' names, locations, etc. | Table 1 |
| 2 | Capital lending to another party | None |
| 3 | Endorsement for another party | None |
| 4 | Marketable securities held as of December 31, 2014 | None |
| 5 | Derivative instrument | None |
| 6 | Accumulated purchases and sales balance of specific marketable security over NT$300 million or 10% of outstanding capital for the year ended December 31, 2014 | None |
| 7 | Acquisition of property, plant and equipment over NT$300 million or 10% of outstanding capital for the year ended December 31, 2014 | None |
| 8 | Disposal of property, plant and equipment over NT$300 million or 10% of outstanding capital for the year ended December 31, 2014 | None |
| 9 | Discount on fees income from related parties over NT$5 million | None |
| 10 | Receivables from related parties over NT$300 million or 10% of outstanding capital | None |
| 11 | Sale of NPL by subsidiary | None |
| 12 | Other significant transactions which may affect decisions of the users of the consolidated financial statements | None |

c. Investment in Mainland China: Table 2

## 40. LOANS TO PARTIES WITH COMMON INTERESTS

| Investees' Names (Note a) | Investees' Location | Principal Business Activities | Ownership Interest (%) at Ending Balance | Investment Book Value | Recognized Investment Income (Loss) of Current Period | Sum of Ownership (Note a) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Current Shares | Imputed Shares (Note b) | Shares | Ownership Interest (%) |
| MasterLink Securities Corp. | Taipei City | Security brokerage | 3.95 | 607,680 | - | 60,768,028 | - | 60,768,028 | 3.95 |
| Asia Pacific Broadband Telecom Co. | Taipei City | Type I & type II telecommunications business | 0.39 | 261,750 | - | 15,000,000 | - | 15,000,000 | 0.39 |
| Taiwan Stock Exchange Co. | Taipei City | Securities brokerage, margin lending, and underwriting financial products | 3.00 | 72,012 | - | 19,332,023 | - | 19,332,023 | 3.00 |
| Taiwan Sugar Co. | Tainan City | Manufacture correlative products of sugar and crop | 0.41 | 44,309 | - | 23,246,159 | - | 23,246,159 | 0.41 |
| Taiwan Power Co. | Taipei City | Generate electric power, power distribution, and cable assemble | 0.71 | 1,872,923 | - | 235,726,532 | - | 235,726,532 | 0.71 |
| Taipei Foreign Exchange Inc. | Taipei City | Exchange trading, DEPOS, and Swap | 3.53 | 7,000 | - | 700,000 | - | 700,000 | 3.53 |
| Lieu-An Service Co., Ltd. | Taipei City | ATM purchase, rental, and repair or maintenance | 5.00 | 1,250 | - | 125,000 | - | 125,000 | 5.00 |
| CDIB & Partners Investment Holding Co. | Taipei City | Investment | 4.95 | 500,000 | - | 54,000,000 | - | 54,000,000 | 4.95 |
| ING Securities Investment & Trust Co. | Taipei City | Securities investment trust | 4.09 | 18,043 | - | 1,413,725 | - | 1,413,725 | 4.09 |
| Financial Information Service Co., Ltd. | Taipei City | Type II telecommunications business | 1.16 | 46,446 | - | 5,213,250 | - | 5,213,250 | 1.16 |
| Taiwan Futures Exchange | Taipei City | Futures exchange | 1.00 | 20,000 | - | 2,898,416 | - | 2,898,416 | 1.00 |
| Taiwan Assets Management Co., Ltd. | Taipei City | Acquisition of delinquent loans, evaluation, auction, and management | 11.35 | 1,500,000 | - | 150,000,000 | - | 150,000,000 | 11.35 |
| Taiwan Financial Asset Service Co. | Taipei City | Auction assets of the recognition of an impartial third party | 2.94 | 50,000 | - | 5,000,000 | - | 5,000,000 | 2.94 |
| Financial Evolution Co., Ltd. | Taipei City | Financial information systems development | 4.12 | 9,860 | - | 905,475 | - | 905,475 | 4.12 |
| Taiwan Depository & Clearing Corporation | Taipei City | Provide book-entry of securities transactions | 0.08 | 6,749 | - | 278,405 | - | 278,405 | 0.08 |
| Sunlight Assets Management Co., Ltd. | Taipei City | Acquisition of delinquent loans, evaluation, auction, and management | 0.70 | 417 | - | 41,768 | - | 41,768 | 0.70 |
| Taiwan Mobile Payment Corporation | Taipei City | Electronic Information provider | 3.00 | 18,000 | - | 1,800,000 | - | 1,800,000 | 3.00 |
| Tai Yu Products Corporation | Taichung City | Frozen agricultural products | 4.77 | (Note c) | - | 5,748,382 | - | 5,748,382 | 4.77 |
| Chi-Yi Construction Management Company | New Taipei City | Residential development and lease | 1.47 | (Note c) | - | 556,965 | - | 556,965 | 1.47 |

Note a: The investees' voting shares, and imputed shares were owned by the Bank and related parties.

Note b: Imputed shares are considered if equity securities such as convertible bonds, warrants, etc., or derivative contracts such as stock options, are converted.

Note c: The Group had recognized the loss on investment in Tai Yu Products Corporation and Chi-Yi Construction Management Company.

## 41. OTHER DISCLOSURE

The Bank had been approved by the FSC to set up Dongguan Branch and Fuzhou Branch on September 5, 2013 and January 28, 2014, respectively. The Bank invested RMB1,000 million and RMB500 million in Dongguan Branch and Fuzhou Branch, respectively. Dongguan Branch began operations on November 19, 2014. On March 13, 2015, Fuzhou Branch had been approved by the central authority of China to begin operations and engage in RMB currency exchange operations.

## 42. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of services provided.

a. Segment revenues and results

| | Year Ended December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans | Deposits and Remittances | Financial Instruments and Investments | Wealth Management | Oversea Branch | Others | Total |
| Net interest income | $ 11,742,624 | $ 3,446,285 | $ 2,168,588 | $ - | $ 1,982,317 | $ (1,858) | $ 19,337,956 |
| Net service fee and commissions income | 1,037,624 | 162,455 | (31,144) | 3,072,599 | 458,105 | - | 4,699,639 |
| Net income on financial instrument | - | - | 2,231,359 | - | 39,625 | - | 2,270,984 |
| Others | 28,562 | - | 5,683 | - | 6,480 | 214,193 | 254,918 |
| Net revenue and gains | 12,808,810 | 3,608,740 | 4,374,486 | 3,072,599 | 2,486,527 | 212,335 | 26,563,497 |
| Reversed allowance for bad debts expenses and guarantee liability provisions | 1,336,841 | - | 46 | - | (452,803) | - | 884,084 |
| Operating expenses | - | - | - | - | - | - | (15,023,496) |
| Income before income tax | $ 14,145,651 | $ 3,608,740 | $ 4,374,532 | $ 3,072,599 | $ 2,033,724 | $ 212,335 | $ 12,424,085 |

| | Year Ended December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans | Deposits and Remittances | Financial Instruments and Investments | Wealth Management | Oversea Branch | Others | Total |
| Net interest income | $ 11,998,158 | $ 2,839,195 | $ 820,130 | $ - | $ 1,425,844 | $ (2,899) | $ 17,080,428 |
| Net service fee and commissions income | 883,710 | 163,980 | (29,144) | 2,706,486 | 420,436 | - | 4,145,468 |
| Net income on financial instrument | - | - | 2,373,019 | - | 7,132 | - | 2,380,151 |
| Others | 34,661 | - | 677 | - | 1,054 | 180,770 | 217,162 |
| Net revenue and gains | 12,916,529 | 3,003,175 | 3,164,682 | 2,706,486 | 1,854,466 | 177,871 | 23,823,209 |
| Reversed allowance for bad debts expenses and guarantee liability provisions | 720,582 | - | 21 | - | (82,830) | - | 637,773 |
| Operating expenses | - | - | - | - | - | - | (13,713,262) |
| Income before income tax | $ 13,637,111 | $ 3,003,175 | $ 3,164,703 | $ 2,706,486 | $ 1,771,636 | $ 177,871 | $ 10,747,720 |

The revenues and results on the segment information reported does not inter-segment revenues.

This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

| | December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans | Deposits and Remittances | Financial Instruments and Investments | Oversea Branch | Others | Adjustment | Total |
| Assets | $ 1,164,023,188 | $ - | $ 474,842,794 | $ 172,025,663 | $ 144,317,144 | $ (139,335,822) | $ 1,815,872,967 |
| Liabilities | $ 1,075,948 | $ 1,421,075,347 | $ 214,003,517 | $ 156,031,784 | $ 43,781,092 | $ (139,335,822) | $ 1,696,631,866 |

| | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans | Deposits and Remittances | Financial Instruments and Investments | Oversea Branch | Others | Adjustment | Total |
| Assets | $ 1,077,351,963 | $ - | $ 533,800,224 | $ 125,511,889 | $ 69,157,333 | $ (105,765,868) | $ 1,700,055,541 |
| Liabilities | $ 1,103,437 | $ 1,349,528,660 | $ 186,997,426 | $ 118,460,538 | $ 37,328,018 | $ (105,765,868) | $ 1,587,652,211 |

TABLE 1

## CHANG HWA COMMERCIAL BANK, LTD.

**INFORMATION ON INVESTEES' NAMES, LOCATIONS**
**YEAR ENDED DECEMBER 31, 2014**
**(In Thousands of New Taiwan Dollars, Except for Percentage and Shares)**

| Investor | Investees' Names | Investees' Location | Line of Business | Original Investment Amount | | Ending Balance | | | Net Income (Loss) of Current Period | Recognized Income (Loss) of Current Period | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | End of Year 2014 | End of Year 2013 | Shares | Ownership Interest (%) | Book Value | | | |
| Chang Hwa Bank | CHB Insurance Agency | 6F, No. 57, Zhong Shan N. Rd., Sec. 2, Taipei City, Taiwan, R.O.C. | Life insurance agency | $ 2,008 | $ 2,008 | 5,000,000 | 100 | $ 476,647 | $ 376,647 | $ 376,647 | |
| | CHB Insurance Brokerage | 6F, No. 57, Zhong Shan N. Rd., Sec. 2, Taipei City, Taiwan, R.O.C. | Property insurance brokerage | 2,000 | 2,000 | 800,000 | 100 | 51,752 | 35,752 | 35,752 | |

# CHANG HWA COMMERCIAL BANK, LTD.

**INFORMATION OF INVESTMENT IN MAINLAND CHINA**
**YEAR ENDED DECEMBER 31, 2014**
**(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

1.

| Investee Company | Main Businesses and Products | Paid-in Capital | Method of Investment | Accumulated Outflow of Investment from Taiwan as of January 1, 2014 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2014 | Net Income (Loss) of the Investee | % of Direct or Indirect Investment | Investment Gain (Losses) | Carrying Amount as of December 31, 2014 | Accumulated Repatriation of Investment Income as of December 31, 2014 | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow | Inflow | | | | | | | |
| Chang Hwa Commercial Bank, Ltd. Kunshan Branch | Banking | $ 4,618,293 (US$155,174) | Note 1.c. | $ 4,618,293 (US$155,174) | $ - | $ - | $ 4,618,293 (US$155,174) | - | - | $ - | $ - | $ - | |
| Chang Hwa Commercial Bank, Ltd. Dongguan Branch | Banking | 4,924,781 (US$162,641) | Note 1.c. | - | 4,924,781 (US$162,641) | - | 4,924,781 (US$162,641) | - | - | - | - | - | |

2.

| Accumulated Outward Remittance for Investment in Mainland China December 31, 2014 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA |
|---|---|---|
| $ 9,543,074 (US$ 317,815) | $ 9,673,404 (US$ 321,642) | $ 17,886,165 |

Note 1: The three methods of investment are as follows:

a. Direct investment in Mainland China.

b. Investment in Mainland China through reinvestment in existing enterprise in a third area.

c. Others.

Note 2: Equity in the profits (losses):

a. If the entity is still in preparation stage and there is no equity in profits (losses), the condition should be noted.

b. The basis of recognizing equity in profits (losses) is categorized in the following three types and each entity should be noted according to its condition.

1) Financial statement audited (reviewed) by international accounting firms that cooperate with accounting firms in ROC.

2) Consolidated financial statements audited (reviewed) by Taiwan parent company’s CPA.

3) Others.

Note 3: In accordance with the “Bank, Financial Holding Corporation and Related Party Invest China Business Rules” announced by the FSC, the accumulated outflow of operating funds and investment from the following parties may not exceed 15% of net assets while they applied:

a. Banks in Taiwan (or subsidiaries in a third area) which establish branches, subsidiaries or acquire shares or capital contribution from local shareholders in Mainland China.

b. The subsidiaries whose issued stocks with voting rights or more than 50% of capital is held by banks in Taiwan that have investment in Mainland China.

TABLE 3

## CHANG HWA COMMERCIAL BANK, LTD.

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS**
**FOR THE YEAR ENDED DECEMBER 31, 2014**
**(In Thousands of New Taiwan Dollars, Except for Percentage and Shares)**

| No. (Note 1) | Investee Company | Counterparty | Relationship | Transactions Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Accounts | Amount | Payment Terms | % to Total Sales or Assets |
| 0 | The Bank | CHB Insurance Agency | a. | Receivables | $ 167,054 | In Accordance with CHB Insurance Agency the commission Income prorated with the Bank's total operating | 0.01 |
| | | | | Commission income | 1,250,754 | Same as normal customers | 4.71 |
| | | | | Deposits and remittance | 643,750 | 〃 | 0.03 |
| | | CHB Insurance Brokerage | a. | Receivables | 9,971 | In Accordance with CHB Insurance Agency the commission Income prorated with the Bank's total operating | - |
| | | | | Commission income | 66,571 | Same as normal customers | 0.25 |
| | | | | Deposits and remittance | 67,286 | 〃 | - |

Note 1: Transaction details: Methods of numbering are as followed:

a. 0 for parent Company.
b. In accordance with subsidiary number starts from 1.

Note 2: Relationships are as followed

a. Parent company to subsidiary.

Note 3: Transactions amounts are calculated as percentage of accrued amounts of total income or ending balance of total assets.