



## **Chang Hwa Commerical Bank, Ltd.**

### **Minutes for the 2016 Annual General Shareholders' Meeting**

#### **(Summary Translation)**

**Meeting Time :** 9 : 00 a.m. on Wednesday, June 8, 2016

**Location :** 13F., No.57, Sec. 2, Zhongshan N. Rd., Taipei City, Taiwan.

**Total outstanding shares of the Company:** 8,457,323,198 shares

**Total shares represented by shareholders present :**

6,672,655,692 shares (1,314,297,125 shares from E-Voting)

**Percentage of shares held by shareholders present :** 78.89%

**Chairman:** Ming-Daw Chang, Chairman of the Board of Directors

**Attending of directors:**

Directors: Julius Chen 、 Ing-Wei Peng

Independent Directors: Kuo-Yuan Liang 、 Shang-Chen Chen 、

Jung-Chun Pan

**Nonvoting of delegate:** President-James Shin 、 Hengheng Attorneys-at-Law-Lawyer Chih-Ching Yu 、 Deloitte & Touche-CPA Jerry Gung 、 Yuanta Securities Registrar & Transfer Agency Dept.-Vice President Emily Ma 、 Junior Manager Chun-Te Fang

**Recorders:** Chun-Huei Yang 、 Wei-Ting Chen 、 Hsiao-Ping Fan

Chairman Remarks (omitted)

## **A. Discussion**

### **Discussion No. 1:**

Amendments to part of the Bank's Articles of Incorporation.

### **Explanation:**

The content of this time of amendments is as follows:

1. Article 5 of the Articles of Incorporation

Increase the authorized capital to 110 billion NT dollars from current 90 billion NT dollars in order to meet the requirements for the Bank's business development and in response to amendments to relevant statutory laws and regulations.

2. Article 9 of the Articles of Incorporation

Add the "engagement in life insurance agency business" and "engagement in non-life insurance agency business".

3. Article 38 of the Articles of Incorporation

Amend the regulations in relation to employee and director remuneration distribution in conjunction with the revision of the Company Act.

4. Article 38-1 of the Articles of Incorporation

5. Move Paragraph 1 of Article 38 for the calculation and distribution of the Bank's shareholders' dividend and bonus to Paragraph 1 of this Article in conjunction with the preceding amendment to Article 38, and specifically prescribe the distributable ratios of shareholder's dividend and bonus. In addition, Paragraphs 2 to 5 of the original Article 38 are moved to Paragraph 2 to 5 of the Article, in which the content remains unchanged.

(Shareholders' questions and the management's responses are omitted)

**Shares present at the time of voting: 6,672,651,196**

**Voting results:**

Approval votes: 4,413,316,592 shares/66,14% (1,025,501,099 shares from E-voting)

Disapproval votes: 12,756,669 shares (12,756,669 shares from E-voting)

Abstention votes : 2,246,577,935 (276,039,357 shares from E-voting)

**Resolution:** voted and approved as proposed.

## **B. Items to Report**

### **Report No. 1 :**

2015 Business Report. (omitted)

### **Report No. 2 :**

Audit Committee review of 2015 audited Financial Statements

(please refer to page 32 to 33 of the manual) .

### **Report No. 3 :**

The Bank's 2015 employee and director remuneration distribution status (please refer to page 5 of the manual) .

### **Report No. 4 :**

The matters regarding the Bank's merger of its two subsidiaries, namely CHB Life Insurance Agency Co., Ltd. and CHB Insurance Brokerage Co., Ltd. (please refer to page 6 of the manual).

### **Report No. 5 :**

Public Notification - Article 25 of the Banking Act (please refer to page 7 to 8 of the manual) .

## **C. Items to Recognize**

### **Recognize No. 1 :**

Adoption of the Bank's 2015 Business Report and Financial Statements (including consolidated financial statements).

### **Explanation :**

The Bank's 2015 Financial Statements, balance sheet, statement of comprehensive income, statement of changes in equity, and statement of cash flows, etc. (please refer to Page 34 to 65 of the manual), have been certified by Jerry Gung, CPA and Walter Liu, CPA of Deloitte & Touche, and the Business Report has also been reviewed by the Bank's Audit Committee, and approved by the Board of Directors. Please adopt them.

**Shares present at the time of voting: 6,672,651,196**

**Voting results:**

Approval votes: 6,351,107,427 shares/95.18% (1,018,825,140 shares from E-voting)

Disapproval votes: 275,068 shares (271,998 shares from E-voting)

Abstention votes : 321,268,701 (295,199,987 shares from E-voting)

**Resolution:** voted and acknowledged as proposed.

**Recognize No. 2 :**

Adoption of the Bank's distribution of 2015 profit.

**Explanation :**

1. The Bank's 2015 net profit after tax was NT\$11,643,336,539. After setting aside 30% legal reserve of NT\$3,493,000,962 by law along with the "Beginning retained earnings" of NT\$340,269,958.47 and the "Actuarial loss of defined benefit plan" of NT\$369,775,790, the distributable net profit was NT\$8,120,829,745.47. The proposed distribution of profit is scheduled as below:

(1) To distribute dividend and bonus to common stock shareholders  
– cash (NT\$0.35 per share): NT\$2,960,063,119.

(2) To distribute dividend and bonus to common stock shareholders  
– stock (NT\$0.6 per share) : NT\$5,074,393,910.

(3) Unappropriated retained earnings are NT\$86,372,716.47.

2. Upon the approval of the Annual Meeting of Shareholders, it is

proposed that the Board of Directors be authorized to resolve the ex-dividend date, ex-rights date, and other relevant issues. Above ex-dividend date will be determined after competent authorities approved the capitalization of earnings case.

3. If the number of outstanding shares is affected by any situations leading to change in shareholder's distribution ratios, the Board of Directors will be authorized to adjust the distribution terms.

(Shareholders' questions and the management's responses are omitted)

**Shares present at the time of voting: 6,672,654,193**

**Voting results:**

Approval votes: 6,372,153,588 shares/95.50% (1,037,874,319 shares from E-voting)

Disapproval votes: 1,444,560 shares (1,441,490 shares from E-voting)

Abstention votes : 299,056,045 (274,981,316 shares from E-voting)

**Resolution:** voted and acknowledged as proposed.

Chang Hwa Commercial Bank, Ltd.  
**PROFIT DISTRIBUTION TABLE**  
 Year 2015

(Unit: NTD\$)

Beginning retained earnings	340,269,958.47
Less: Actuarial loss of defined benefit plan	(369,775,790.00)
Add: Net profit after tax	11,643,336,539.00
Less: 30% legal reserve	(3,493,000,962.00)
Distributable net profit	8,120,829,745.47
Distributable items:	
Dividend to shareholders -Cash dividends: NT\$0.35 per share	2,960,063,119.00
Dividend to shareholders -Stock dividends: NT\$ 0.60 per share	5,074,393,910.00
Unappropriated retained earnings	86,372,716.47

**D. Discussion**

**Discussion No. 2 :**

Discussion and ratification of the Bank's a new share issue through capitalization of earnings.

**Explanation :**

1. In order to reinforce working capital, strengthen the financial structure and raise the capital adequacy ratio, the Bank plans to set

aside NT\$5,074,393,910 from the stock dividends of distribution of 2015 profit as the capital for issuing new shares with a face value of NT\$10 per share in accordance with Article 240 of the Company Act. It is expected to issue 507,439,391 shares of common stock and, after the capitalization of earnings, the Bank's capital will become NT\$89,647,625,890.

2. The rights and obligations of the newly issued shares are the same as those of existing shares.
3. If the number of outstanding shares is affected by an amendment to relevant laws or regulations, a request by the competent authorities, or other situations leading to change in shareholder's distribution ratios, the Board of Directors will be authorized to adjust the distribution terms.

(Shareholders' questions and the management's responses are omitted)

**Shares present at the time of voting: 6,672,655,692**

**Voting results:**

Approval votes: 6,373,355,583 shares/95.51% (1,039,074,869 shares from E-voting)

Disapproval votes: 1,573,235 shares (1,573,235 shares from E-voting)

Abstention votes : 297,726,874(273,649,021 shares from E-voting)

**Resolution:** voted and approved as proposed.

**E. Questions and Motions**

(Shareholders' questions and the management's responses are omitted)

**F. The adjournment: 11:14 a.m.**

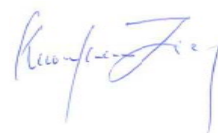
**Chang Hwa Commercial Bank, Ltd.**  
**Audit Report of Audit Committee**  
**February 25, 2016**

**To: Shareholders of Chang Hwa Commercial Bank, Ltd.**

The Board of Directors has prepared the 2015 Report on Business Operations and various financial statements (including Balance Sheet, Statement of Comprehensive Income, Statement of Changes in Equity, and Cash Flow Statement). All the financial statements, including Consolidated Statements, have been certified by Jerry Gung, CPA and Walter Liu, CPA of Deloitte & Touche, and upon which a Standard Unqualified Opinion has been issued. These statements referred to above present fairly the financial position as of December 31, 2015 and the operation results and cash flows in 2015 of the company. The Audit Committee has reviewed the above-mentioned statements in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act and hereby provides such audit report.

The Audit Committee, Chang Hwa Commercial Bank, Ltd.

Independent Director & Chairman : Kuo-Yuan Liang



Independent Director : Shang-Chen Chen



Independent Director : Jung-Chun Pan





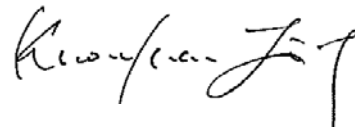
**Chang Hwa Commercial Bank, Ltd.**  
**Audit Report of Audit Committee**  
**April 22, 2016**

**To: Shareholders of Chang Hwa Commercial Bank, Ltd.**

The Board of Directors has prepared the 2015 Earnings Distribution Proposal. The Audit Committee has reviewed the aforementioned Proposal in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, and confirmed its consistency with related laws and rules. The Audit Committee hereby provides the said audit report.

The Audit Committee, Chang Hwa Commercial Bank, Ltd.

Independent Director & Chairman : Kuo-Yuan Liang



Independent Director : Shang-Chen Chen



Independent Director : Jung-Chun Pan



## **The 2015 Business Report of Chang Hwa Commercial Bank, Ltd.**

In the world economic outlook published by the International Monetary Fund (IMF) in January 2016, global economic growth for the year of 2015 was revised to 3.1%. In the United States, a strong dollar coupled with low oil prices suppressed export growth and investments in the energy business; however, favorable statistics from the labor market put the US in a state of mild recovery, and it was expected to achieve a full year economic growth of 2.5%. Meanwhile, business and consumer confidence in the Eurozone was boosted by the loose monetary supply and weakened Euro, which stimulated both domestic and foreign demand, helping the economy recover at 1.5% for the year. China, on the other hand, was impacted by capacity adjustments within its industries and cooling of the real estate market, which forced the government to reduce deposit reserve ratios and prime deposit/lending rates since November 2014 in an attempt to stimulate export performance and stable economic growth. However, investment, consumption and trade statistics remained weak despite all efforts, and economic growth is estimated at 6.9% for the year with a pessimistic outlook. In Japan, the negative impacts of the consumption tax had lessened, allowing a weakened yen to drive exports, production, salary, and domestic demand; growth for the year was estimated at 0.6%.

With regards to the domestic economy, the Directorate-General of Budget, Accounting, and Statistics (Executive Yuan) published its report on January 29, 2016, which revised economic growth down to 0.85% for the year of 2015. The report showed: lower consumer confidence in light of instabilities in the global economy; a 2.33% growth in private spending driven by international low commodity prices and the government's short-term consumption incentives; 1.01% growth in private investments due to reduced capital expenditure from semiconductor manufacturers in light of concerns toward the global economy, and from construction companies due to the cooling real estate market; a -0.3% contraction in export volume due to the slow recovery of the global economy, falling

prices (agricultural, industrial, and commodity), leveled growth in consumer electronics demand, and localization of Chinese supply chains that posed significant competition to local exporters; a marginal 0.53% increase in imports due to reductions in the price of imported goods, and lesser demand for imported equipment given the lack of confidence; and a -0.31% contraction in CPI due to underwhelming recovery of the economy, and low prices of oil and commodities that contributed little to the price of goods. After 16 consecutive quarters of no changes, the Central Bank made its first interest rate adjustment in September 2015 followed by another one in December, reducing the rediscount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral from 1.875%, 2.25%, and 4.125% to 1.625%, 2%, and 3.875%, respectively, in response to downside risks in the global economy that may impact the nation's export performance, investments, and consumer confidence. This signifies the government's intent to use interest rate policies to induce a weakened currency that would stimulate Taiwan's economic performance. In terms of exchange rate movements, the TWD had strengthened against the USD to as high as 30.541 sometime in the first half of 2015 despite all signs of a slow economy such as export contraction, low private investment, and a "blue" indicator that signified stagnant growth. This rise of the exchange rate was attributable to an inflow of foreign capital after ECB and BOJ both decided to escalate their expansionary monetary policies. In the second half of 2015, the TWD started to weaken against the USD after prolonged lack of improvement in economic performance, particularly when the FED's intent to raise interest rates was made clear after October 2015.

Overall, the global economy had performed below expectations in 2015, with growth estimates revised downward across all international institutions. The IMF also described 2015 as the year with the weakest economic performance since the financial crisis in 2009. Despite the challenges presented to us, the Bank was still able to deliver exceptional results in 2015 thanks to the efforts of all our employees, with cumulative pre-tax earnings reaching TWD13.746 billion, making 2015 the 6th consecutive year in which the Bank has earned more than TWD10

billions in earnings. Improvements were also seen in terms of asset quality, as the overdue loan ratio was reduced to 0.21%, and the coverage ratio increased to 567.63%. Furthermore, the credit rating report published by Moody's on June 19, 2015, raised the Bank's international long-term rating from A3 to A2 and international short-term rating from P-2 to P-1, which was a favorable acknowledgment towards the Bank's business focus on stability. We thank all our shareholders for the long-term support and encouragement they have given to us, and the Bank will continue to strive for excellence in the future. The impacts of our operating performance in 2015, highlights of business operation plans for 2016, development strategy, external competitive environment, regulatory environment, macroeconomic environment, and the latest credit ratings are illustrated as follows:

## **A. Operating Performance in 2015**

### **a. Changes to the organization**

The Bank has complied with Paragraph 1, Article 32 of the amended Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries (by Financial Supervisory Commission; FSC), and established a Legal Affairs Section that specializes in legal matters and a Compliance Section that specializes in compliance matters directly under the President on February 1, 2015. Meanwhile, a Vice President-equivalent Group Compliance Officer was appointed to oversee legal affairs and compliance matters.

### **b. Implementation Results of Business Plans and Strategies**

#### **1. Corporate banking:**

Corporate lending services including SME Credit Guarantee Batch Applications, Sustainability Loans, and non-SME Stimulation Loans were introduced in 2015.

#### **2. Consumer banking:**

Launched personal loan products such as "Salary-backed Loans" and "Employment-backed Loans"

#### **3. Syndicated loans:**

In 2015, the Bank lead-arranged and co-arranged a total of 58 syndicated loans, and participated in the lending of 114 syndicated loans. The syndicated loan business (including arranging and participating roles) averaged a balance of NT\$128.9 billion and generated net interest income (NII) totaling NT\$1.414 billion. Fee income amounted to NT\$228 million, representing a 46% growth compared to 2014.

4. Credit card business:

Launched MasterCard Titanium/Platinum, smartphone credit cards, and Unionpay acquiring services. Launched marketing campaigns including 1.1% cashback for new cardholders, spring shopping incentives (with minimum spending), summer break concessions (with minimum spending), buy-one-get-one-free movie tickets, 2% cashback on JCB card spending in Japan, Taiwan High Speed Rail business class upgrades and standard class discounts, “Food Fashion” privileges, and installment purchases for online shopping.

5. Foreign currencies:

- (1) All branches of the Bank have become full-fledged foreign currency units, while 69 of them are full-service foreign currency units and 117 of them are foreign exchange units.
- (2) Joined Ess-Databridge, which enables importers to view import documents and endorse/transfer bills of lading online.
- (3) Launched the “RMB Time Deposit and Trade Financing” campaign.

6. Trust / Wealth management:

- (1) In 2015, the Bank added 118 new domestic funds, 142 new offshore funds and 17 foreign bonds to the product portfolio. As at the end of 2015, the Bank had a total of 655 domestic funds, 1,113 offshore funds and 17 foreign bonds distributed to the market, giving investors a broad range of selections to choose from.
- (2) In addition, the Bank held custody of 4 new domestic funds offered during the year. In terms of assets under custody, the Bank ranked 6<sup>th</sup> among local peers.
- (3) Organized 12 financial seminars to a total audience of approximately 800 in 2015.

#### 7. E-banking:

- (1) Introduced the mobile ATM card, giving customers the convenience of making payments and managing accounts with their smartphones.
- (2) Optimized collection services to allow the collection of tuition fees from Mainland students, and batch receipts/payments for trading of merchandise between large trading firms.
- (3) Activated functions such as documentary bills, acceptance, repayment, and credit reform in the local electronic LC system, thereby enhancing the quality of the Bank's digital services.

#### 8. Information Technology services:

- (1) The Bank's information system had passed the ISO 27001 : 2013 new version certification.
- (2) Continued efforts in implementing various information systems, while developing new systems to support new services.
- (3) The implementation of the overseas branches banking system raised overall system efficiency.

#### 9. Risk Management:

- (1) Implemented Chang Hwa Bank Guidelines on Non-credit Transactions with Stakeholders, and enhanced the Bank's internal control for the purpose of preventing conflicts of interest and non-arms length transactions.
- (2) Implemented the Bank's 2015 risk appetite statement so that every business and management activity was properly aligned with the target risk appetite, therefore ensuring compliance with financial supervisory regulations and best corporate governance practices.
- (3) Tightened management over Mainland businesses. Enhanced disclosure of Mainland credit portfolios in the automated credit system, and assigned dedicated personnel to review and verify the accuracy of exposure data.

#### 10. Non-performing loan management:

As of the end of December 2015, overdue loans amounted to NT\$2.843 billion or 0.21%, and the coverage ratio stood at 567.63%.

#### 11. Human resources management:

- (1) The Bank adheres to the principles of appointing the best talent for the

tasks at hand and of adopting fair and reasonable performance appraisal and reward/penalty policies to enhance the effectiveness of employees and to boost their morale.

- (2) Enhanced personnel training; strengthened the quality of core competency and human resources development to support business development.

#### 12. New overseas branches:

Opened the Fuzhou Branch in China, which began business operations on April 20, 2015. Established a representative office in Yangon, Myanmar, as a step towards the global market.

#### 13. Awards received:

- (1) The Bank was given a performance rating of “A” in the FSC’s 2014 (9th) SME lending review, and was given a special merit award in the FSC’s e-commerce financing review.
- (2) Received the 2014 Excellent Credit Guarantee Partner Award and Outstanding Credit Manager commendation from the Ministry of Economic Affairs.
- (3) Received the 2015 Electronic Banking Excellence Award - Credit Card and Visa Debit from Financial Information Service Co., Ltd.
- (4) Received the 2015 Mobile Payment and Smartphone ATM Excellence Award" from Financial Information Service Co., Ltd.
- (5) The Bank’s data warehouse upgrade project received the 2015 ITeS Award from itSMF.
- (6) Accredited as the Market Risk Technology Implementation of the Year by The Asian Banker.
- (7) Received the Diamond Award - RMB Futures Marketmaker of the Year from Taiwan Futures Exchange.

#### 14. Participation in public interest activities:

- (1) Organized a charity concert named “ Let’s Go on a Singing Trip” on Mother’s Day, during which parents and children from disadvantaged families were invited to attend.
- (2) Supported arts, culture and creativity education by sponsoring New Taipei Municipal Shenkeng Junior High School in taking a “Musical Journey” to Singapore.

- (3) Sponsored Eden Social Welfare Foundation in launching its 2015 community accessibility program for disadvantaged elders and people with impaired movement.
- (4) Made donations into the New Taipei City Social Aid Account to assist in the treatment and recovery of victims of the dust explosion incident at Formosa Fun Coast.
- (5) Sponsored Taipei Light House in organizing the Taiwan Vision Day event and celebration of its 60th anniversary.
- (6) Sponsored the efforts of Huashan Social Welfare Foundation in delivering new year meals and mobilizing volunteer services to lone elders.
- (7) Made donations to Teach For Taiwan (TFT), and helped fix the lack of teachers in remote areas.
- (8) Made donations to the “Tuition Support Program” organized by Taiwan Fund for Children and Families, which assisted financially disadvantaged elementary school and junior high school students in their studies.
- (9) Made donations to the program - “Tuition Subsidy for Financially Disadvantaged High School Students” organized by Twilight Elite Development Association.
- (10) Sponsored Global Vision Magazine in organizing its 2015 Financial Summit Forum, which helped the public gain knowledge and information regarding the financial market.
- (11) Sponsored the Taiwanese Economic Association in organizing its 2015 annual event, and contributed to the study of theoretical and practical economics, as well as the development of social sciences.
- (12) Co-organized the 2015 Financial Service Care Society Party (Nantou and Taitung sessions) and gave the public an understanding of how the banking industry has contributed to financial education and charity work.
- (13) Purchased 4,000 copies of “Turn Life Around” (stories of 12 suburban children) and donated them to Yunlin County students in an attempt to provide inspiration and positive influences.

#### 15. Corporate Social Responsibility:



- (1) Published the Bank's first corporate social responsibility report and obtained the certification of British Standards Institute (BSI).
- (2) The Bank's environmental management system was certified by BSI for ISO 14001: 2015.

### **c. Budget Execution**

1. The total deposit volume (excluding the deposit transferred from postal savings) reached NT\$1,483,417,665 thousand or 100.36% of the original budget target.
2. The total loans volume was NT\$1,302,695,772 thousand or 102.32% of the original budget target.
3. The total investment business(securities) volume was NT\$298,574,125 thousand or 102.09% of the original budget target.
4. The foreign exchange transactions totaled US\$131,259,206 thousand amounting to 89.59% of the original budget target.
5. The securities brokering transactions totaled NT\$71,209,969 thousand or 82.55% of the original budget target.
6. The wealth management business volume was NT\$75,897,290 thousand or 65.73% of the original budget target.
7. The trust business volume (custodian service) was NT\$145,790,775 thousand or 109.12% of the original budget target.
8. The total card transaction volume (retail spend) reached NT\$15,048,489 thousand representing 104.44% of the original target.

### **d.Revenues, Expenses, and Profitability Analysis(Including Subsidiaries)**

1. Net interest revenue: NT\$20,915,929 thousand
2. Net non-interest revenue: NT\$8,753,930 thousand
3. Net revenue: NT\$29,669,859 thousand
4. Bad loan reversal: NT\$329,372 thousand
5. Operating expenses: NT\$15,594,286 thousand
6. Earning Before Tax: NT\$13,746,201 thousand
7. Tax expenses: NT\$2,102,864 thousand
8. Net income: NT\$11,643,337 thousand

9. Other comprehensive income: NT\$171,329 thousand
10. Total comprehensive income – current: NT\$11,814,666 thousand
11. After tax EPS: NT\$1.37
12. Net income was equivalent to 0.63% (ROA) of the averaged total asset value.
13. Net income was equivalent to 9.36% (ROE) of the averaged equity.

#### **e. Research and Development Status**

##### 1. Economic and industry analysis:

The world's financial market has become more unpredictable and changeable year after year. In an attempt to grasp the ongoing economic, political, and industrial developments around the world, the specific unit-in-charge of the Bank has invested extensively in researches and closely monitored ongoing industry developments. These efforts were aimed to identify turning points in the business environment, and any findings were communicated to various offices and business units on a regular basis using video conferencing.

##### 2. Business research and development reports:

The Bank's management units had identified prevailing issues relating to business operations and the financial environment, and drawn up these issues to employees for research. A total of 27 studies were completed in 2015. The research was reserved in the Bank's library and made accessible by all employees, thereby promoting their new knowledge as well as professional skills to improve and develop the Bank's business.

### **B. Highlights of Business Operation Plans for 2016**

#### **a. Business Directions and Operation Policies**

##### 1. Deposits:

- (1) Continue attracting NTD and foreign currency demand deposits; increase the percentage of customers' demand deposits for lower cost of funds.
- (2) In light of deregulations on RMB currency, the Bank takes initiatives to expand its RMB deposit base and open up new possibilities for this emerging currency.

## 2. Credit business:

- (1) Devote greater efforts toward consumer loans, wealth management loans, SME loans, factoring, and continually expanded the OBU credit portfolio. Increase market share while at the same time reducing low-margin loans for higher spread.
- (2) Actively participate in international syndicated lending as a lead arranger and raise OBU revenues. Extend reach into overseas markets and raise the significance of loan cases independently explored by offshore units.
- (3) Explore opportunities and capture market share in cross-strait trade financing as China introduces further deregulations on cross-border RMB lending.
- (4) Restructure the credit portfolio; increased the weight of high-margin or high-revenue customers for greater interest income.

## 3. Foreign currencies:

- (1) Improve services to Taiwanese enterprises operating in China by utilizing new banking functions such as cross-border RMB settlement and remittance. Urge business units to take initiative in visiting premium customers for more opportunities to provide import, export, and currency exchange services.
- (2) Strengthen relationships with foreign deposit banks and correspondence banks; collaborate in expanding foreign currency-related services.
- (3) Increase borrowers' loan utilization rate; raised the Bank's market share in foreign currency lending.

## 4. Treasury transactions:

Adjust investment portfolio at appropriate times; offer financial products in broader varieties and increase sales by helping companies to profit from treasury transactions.

## 5. Trust / Wealth management:

- (1) Select top-performing funds and market them by offering professional investment consultancy services. Introduce a broad variety of trust services such as real estate trust, escrow trust, and childcare trust.
- (2) Enhance services in digital channels; create new value by offering refined financial services to customers.

6. Cards:

Organize customized credit card marketing campaigns on top of the Bank's existing acquiring services. Expand card base and increase the amount spent.

7. E-commerce / Online banking:

(1) Take advantage of e-commerce opportunities by operating a third party payment platform. The platform attracts users from both existing and new customers.

(2) Explore digital banking services especially with regards to Bank 3.0 and O2O (Online to Offline or Offline to Online). Establish the Bank's professional reputation in digital banking by integrating virtual and physical channels.

8. Overseas businesses:

Broaden the variety of cross-strait banking services and achieve deeper penetration of featured services and products. Expand the Bank's global financial services and enhance global brand awareness.

9. Security brokerage:

Expand market share in electronic trading services by upgrading the existing internet trading and mobile trading systems (including opening an account online).

10. Operational management:

(1) Improve international banking talents in terms of both quality and quantity. Train digital banking talents as a new competitive advantage.

(2) Develop advanced capital planning and asset/liability management; maintain adequate capital that supports business development and covers potential risks.

(3) Take pragmatic steps toward corporate governance and conduct various business activities under robust supervision in a purpose of securing shareholder interest.

11. Risk management operations:

(1) Continue to improve its credit portfolio risk management and monitoring practices in a manner that conforms with its risk management policy, business characteristics, the latest Basel Capital Accord, and qualitative indicators and aims to provide the most

accurate and timely information for executive risk managers.

- (2) Use risk assessment tools such as application/behavioral models to develop objective and consistent reviews on individual credit customers. Quantify risks to facilitate identification, assessment, monitoring and communication.

#### 12. Internal Control:

- (1) Implement the three lines of defense as part of the Bank's internal control. Integrate the first (self-audit), second (regulatory compliance and risk management) and third (internal audit) lines of defense to ensure the effectiveness of the Bank's internal control policy.
- (2) Enforce the Bank's compliance policy and practices.

#### 13. Back-end operations:

- (1) Enhance IT security control; raise efficiency of IT operations by improving existing workflow.
- (2) Increase non-operating revenues in the form of financial lease income. Reduce expenses and control procurement costs.
- (3) Aim to reduce 50,000KG of CO2 emission each year in support of government policies.

### **b. Business Operation Targets**

#### 1. Deposit Volume:

NT\$1,554,073,751 thousand

#### 2. Loans Volume:

NT\$1,379,954,611 thousand

#### 3. Investment Business(Securities):

NT\$304,092,961 thousand

#### 4. Foreign Exchange Transactions:

US\$138,574,404 thousand

#### 5. Securities Brokerage Transactions: NT\$74,627,238 thousand

#### 6. Wealth Management Transactions: NT\$84,383,000 thousand

#### 7. Trust Business (Custodian Service):

NT\$145,950,000 thousand

#### 8. Credit Card (Transaction Amount): NT\$16,187,305 thousand

### **C. Development Strategy**

a. Deposits

Continually expand the size of TWD and foreign currency deposits, and build up a pool of RMB capital.

b. Credit business

1. Develop consumer loans and wealth management products for individual customers; raise product competitiveness and aim to achieve higher market share.

2. Continue enhancing the quality of the credit portfolio and perform credit assessments in a more prudent approach. Adjust the credit portfolio and place more emphasis on SME lending for higher margin. Actively utilize the SME credit guarantee fund as a means of securing the Bank's debt entitlements.

c. Overseas Business

1. Convert Mainland branches into subsidiaries plus the establishment of Nanjing Branch.

2. Apply for the establishment of a representative office in Yangon, Myanmar.

3. Establish local branches and merger local financial institutions at potential ASEAN countries. Search for suitable merger targets or investees and use them to provide quick access to the local financial market.

d. Treasury transactions

1. Conduct rigorous studies on global political, economic and financial trends; adjust portfolio for optimized income.

2. Pay close attention to the movement of capital around the world and changes in counterparty credit ratings, while at the same time securing the Bank's funding flexibility. Exercise robust liquidity management; optimize capital allocation by striking the right balance between liquidity and funding costs.

e. Wealth Management Transactions

1. Offer suitable investment products and retirement trust solutions for affluent, middle-age/senior customers in light of the aging society.

2. Assemble a team of professional investment advisers that focus on serving high net worth and private banking customers.

f. Trust business

1. Increase fund sales by offering customers the most finely picked range from local and abroad.
2. Publish daily financial news and weekly, monthly and quarterly investment reports to assist the Bank's financial advisors and to keep customers informed of the latest, most professional financial insights.

g. Cards

In response to the rise of new mobile and business applications, the Bank will be launching services such as mobile payment, high-level credit card, and featured co-brand cards to enrich its existing product line and use them as means of effective customer management to grow new accounts, transaction volume, and card market size.

h. E-commerce / Online banking

1. Introduce upgrades to the personal Internet banking systems.
2. Develop an electronic payment platform that handles local and cross-border online payment/collection, and O2O services using smartphones or other portable devices.
3. Enhance IT training on customer service personnel; provide them with the skills necessary to deliver quality digital services.

i. Operational management

1. Develop a versatile talent training system that conforms with the Bank's business strategies. Implement an employee transformation program that provides them with the professional capacity needed to embrace the challenges of the Bank 3.0 era.
2. Continue raising the transparency of information disclosed to achieve sound corporate governance.
3. Achieve full utilization of assets held on hand to derive maximal benefits. For real estate properties under management, the Bank will adopt a variety of value-adding solutions such as construction, leasing, participation in city renewals, and cooperation with professional developers to maximize gains by utilizing the Bank's real estate.
4. Adopt a broad variety of pro-active debt collection strategies; monitor debt recovery progress on a regular basis and offer incentives to collectors for recovering bad loans; resolve overdue loans to maintain

the Bank's asset quality.

j. Risk management operations

- 1.Continue monitoring and management of credit exposure in the Mainland.
- 2.Develop credit risk management techniques and quantitative models for expected losses.
- 3.Improve the completeness and effectiveness of operational risk management.

k. Back-end operations

- 1.Direct audit focus towards credit exposure in China, real-estate loan business, and financial derivatives business. Improve the quality of internal audits so that suggestions can be fed back constantly to the management.
- 2.Upgrade to the latest information technology to accommodate the changing trends. Enhance information and network security control to give customers a safe transaction environment.
- 3.Adopt centralized processing for highly manual works and for services that have the potential to achieve economies of scale in purpose of lower operational risk and cost. For operations which centralized processing is unsuitable, the Bank will focus on improving system functions and simplifying procedures to cut down the amount of manual works involved.

**D.The Impact of the External Competitive Environment, Regulatory Environment, and Macroeconomic Environment**

**a. External Competitive Environment**

- 1.Following the implementation of Act Governing Electronic Payment Institutions and related regulations, there has been a gradual removal of restrictions previously placed on electronic payments, which opened ways for medium and large-size companies (such as allPay, Gamania, Pay2go, Pchome etc) to introduce electronic cash flow and mobile payment services. To maintain competitiveness while at the same time satisfy customers' needs and prevent loss of business, the Bank has also been active in the construction of its own electronic payment platform.



The Bank hopes to capture a foothold in e-commerce first by offering collection, payment and account prepayment services. These services can be expanded later to provide synergy for other operations.

2. The competent authorities are currently planning to establish a “Mega Fund Platform” that enables the sale of any local or offshore fund as soon as an agreement is signed between the fund issuer and Taiwan Depository and Clearing Corporation. In addition, online account opening gives investors the convenience to trade within relatively short time at commission rates that are more favorable as compared to conventional means. This development is expected to be realized in 2016. The Bank will continue to observe how it affects the banking business, and revise operating procedures where appropriate to improve service quality and mitigate impacts against the Bank.

#### **b. Regulatory Environment**

1. By incorporating new technologies such as mobile communication, social media, big data, and cloud computing, the FSC has been planning to launch its Banking 3.0 program as a solution to many challenges including data security, protection of consumer interest, and business sustainability of financial institutions. This program was launched on a nation-wide scale in 2015, during which a total of 12 services were made available online while simplified procedures were introduced for digital banking applications.

2. Amendment of the Personal Information Protection Act:

Following the President’s announcement on December 30, 2015, amendment of the Personal Information Protection Act was implemented on March 15, 2016. The main focuses of this amendment were: Sensitive personal information such as medical history, genetic information, sexual orientation and criminal history can no longer be gathered, processed or made use of, except in circumstances permitted by law or for purposes such as helping government agencies or non-government institutions fulfill statutory obligations, to the extent deemed necessary. In any case, there must be proper security measures in place to safeguard the use of such data.

Personal information can only be gathered with the written consent of

the information owner. However, a written consent would be considered invalid if the government agency or non-government institution had coerced the information owner into giving in the first place.

This amendment will resolve certain parts of the Personal Information Protection Act that is currently impractical to enforce, and ensure protection of human rights as well as proper use of personal information.

### 3. Amendment of Regulations Governing Foreign Exchange Business of Banking Enterprises by the Central Bank:

On May 22, 2015, the Central Bank made several amendments to Regulations Governing Foreign Exchange Business of Banking Enterprises to ensure alignment of existing rules, simplify application procedures, clarify foreign currency services available to banks, and to open up a broader range of foreign currency derivatives. Key focuses of these amendments are as follows:

- (1) Giving qualified banks the permission to issue foreign currency NCD.
- (2) Giving qualified banks the permission to manage capital collectively in the form of foreign currency denominated trust accounts.
- (3) Broadened the range of foreign currency derivatives available to banks.
- (4) Simplified application procedures.

### 4. Establishment of Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business by the FSC:

On June 2, 2015, the FSC implemented Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business (hereinafter referred to as the Regulation) as a means to enhance risk management and protect customers' interests with regards to the sale of derivatives. The Regulation clearly outlines the scope of derivative services offered by banks, as well as rules on personnel management, customers' interests and risk management.

Given the high risks associated with derivatives, these products should only be introduced by personnel who have adequate professional capacity over the market and the products. As a result, the Regulation

has outlined the criteria, the number of training hours each year, and the registration process that sales personnel and financial advisers must complete before conducting service. Meanwhile, the Regulation also requires banks to develop suitable performance appraisal systems for the management of their employees.

For the protection of customers' interests, the Regulation requires banks to classify their customers and manage them separately. Different procedures should be implemented for non-professional investors and general customers in order to minimize disputes and ensure a healthy market.

### c. Macroeconomic Environment

There are many variables that will affect how the global economy may progress in 2016. Slowdown of the Chinese economy coupled with increased volatility in emerging markets still present significant downside risks to this year's global economic outlook. This will undoubtedly be a year full of drastic changes. In future, the Bank will stay committed to its moderate philosophy and grow both local and overseas markets for higher profitability. We shall develop our global competitive advantage and enhance risk management by strengthening our working capital and offering financial services with greater innovation and diversity. It is our aim to become Taiwan's top bank and deliver the best interest for customers, shareholders and employees.

### E. Latest Credit Ratings

Rating Agency	Release Date	Global Rating		National Rating		Outlook
		Long-term	Short-term	Long-term	Short-term	
Moody's	2016/1	A2	P-1	---	---	Stable
Taiwan Ratings	2015/11	---	---	twAA	twA-1+	Stable
S&P	2015/11	BBB+	A-2	---	---	Stable

## 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, 2015 and 2014, and related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014. 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, 2015 and 2014, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2015 and 2014, 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, 2015 and 2014 on which we have issued an unqualified report.

February 25, 2016

### 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, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

ASSETS	2015		2014	
	Amount	%	Amount	%
Cash and cash equivalents	\$ 31,225,679	2	\$ 39,586,197	2
Due from the Central Bank and call loans to banks	146,654,212	8	109,277,694	6
Financial assets at fair value through profit or loss	43,518,615	2	37,825,737	2
Derivative financial assets for hedging	192,521	-	27,629	-
Receivables, net	19,729,443	1	21,809,314	1
Current tax assets	55,436	-	581,958	-
Loans, net	1,321,934,363	69	1,259,366,749	70
Available-for-sale financial assets, net	67,415,202	3	46,145,608	3
Held-to-maturity financial assets, net	205,777,255	11	183,637,059	10
OTHER FINANCIAL ASSETS, NET				
Financial assets carried at cost	4,167,009	-	4,167,009	-
Debt investments without active market	2,051,074	-	3,400,342	-
Other miscellaneous financial assets	<u>25,530,337</u>	<u>2</u>	<u>71,155,311</u>	<u>4</u>
Other financial assets, net	<u>31,748,420</u>	<u>2</u>	<u>78,722,662</u>	<u>4</u>
Property and equipment, net	22,253,008	1	23,822,844	1
Investment property, net	12,536,509	1	11,012,440	1
Intangible assets, net	500,710	-	473,336	-
Deferred tax assets	2,367,489	-	3,186,032	-
Other assets	<u>348,357</u>	<u>-</u>	<u>397,708</u>	<u>-</u>
TOTAL	<u>\$ 1,906,257,219</u>	<u>100</u>	<u>\$ 1,815,872,967</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
Due to the Central Bank and banks	\$ 124,025,228	7	\$ 124,155,182	7
Finance due to banks	3,879,840	-	950,100	-
Financial liabilities at fair value through profit or loss	22,732,139	1	20,858,363	1
Securities sold under repurchase agreements	4,612,047	-	4,526,694	-
Payables	23,164,932	1	29,505,168	2
Current tax liabilities	146,692	-	849,381	-
Deposits and remittances	1,547,739,711	81	1,452,969,285	80
Bank note payables	35,176,580	2	48,463,938	3
Other financial liabilities	1,075,196	-	624,416	-
Reserve for liabilities	4,371,316	-	4,034,679	-
Deferred tax liabilities	6,644,859	1	6,738,024	-
Other liabilities	<u>3,213,720</u>	<u>-</u>	<u>2,956,636</u>	<u>-</u>
Total liabilities	<u>1,776,782,260</u>	<u>93</u>	<u>1,696,631,866</u>	<u>93</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK (Notes 4, 29 and 31)</b>				
Capital stock				
Common stock	84,573,232	5	79,040,404	5
Retained earnings				
Legal reserve	20,291,944	1	17,022,790	1
Special reserve	12,020,521	1	12,020,521	1
Unappropriated earnings	11,613,831	-	10,723,060	-
Other equity				
Exchange differences on translation of foreign financial statements	733,874	-	750,956	-
Unrealized gains (losses) on available-for-sale financial assets	<u>241,557</u>	<u>-</u>	<u>(316,630)</u>	<u>-</u>
Total equity	<u>129,474,959</u>	<u>7</u>	<u>119,241,101</u>	<u>7</u>
TOTAL	<u>\$ 1,906,257,219</u>	<u>100</u>	<u>\$ 1,815,872,967</u>	<u>100</u>

## CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
INTEREST INCOME	\$ 32,991,503	111	\$ 31,862,471	121
INTEREST EXPENSES	<u>(12,075,574)</u>	<u>(41)</u>	<u>(12,524,515)</u>	<u>(48)</u>
NET INTEREST INCOME	<u>20,915,929</u>	<u>70</u>	<u>19,337,956</u>	<u>73</u>
NET INCOME OTHER THAN NET INTEREST INCOME				
Net service fee and commissions income	4,918,131	17	4,536,936	17
Gain on financial assets and liabilities at fair value through profit or loss	406,788	1	875,488	3
Realized gain on available-for-sale financial assets	280,188	1	118,753	1
Foreign exchange gains (losses)	1,647,056	6	986,655	4
Other miscellaneous net income	<u>1,501,767</u>	<u>5</u>	<u>545,006</u>	<u>2</u>
Net income other than net interest income	<u>8,753,930</u>	<u>30</u>	<u>7,062,838</u>	<u>27</u>
NET REVENUE AND GAINS	<u>29,669,859</u>	<u>100</u>	<u>26,400,794</u>	<u>100</u>
BAD DEBTS EXPENSES AND GUARANTEE LIABILITY PROVISIONS	<u>(329,372)</u>	<u>(1)</u>	<u>884,084</u>	<u>3</u>
OPERATING EXPENSES				
Employee benefits expenses	(10,201,704)	(35)	(9,899,498)	(37)
Depreciation and amortization expenses	(702,268)	(2)	(715,465)	(3)
Other general and administrative expenses	<u>(4,690,314)</u>	<u>(16)</u>	<u>(4,245,830)</u>	<u>(16)</u>
Total operating expenses	<u>(15,594,286)</u>	<u>(53)</u>	<u>(14,860,793)</u>	<u>(56)</u>
INCOME BEFORE INCOME TAX	13,746,201	46	12,424,085	47
INCOME TAX EXPENSE	<u>(2,102,864)</u>	<u>(7)</u>	<u>(1,526,905)</u>	<u>(5)</u>
NET INCOME	<u>11,643,337</u>	<u>39</u>	<u>10,897,180</u>	<u>42</u>

(Continued)

# CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
<b>OTHER COMPREHENSIVE INCOME</b>				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ (445,513)	(1)	\$ (254,709)	(1)
Income tax relating to items that will not be reclassified subsequently to profit or loss	75,737	-	43,301	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(10,707)	-	700,170	3
Unrealized gain (loss) on available-for-sale financial assets	551,907	2	196,830	1
Income tax relating to items that may be reclassified subsequently to profit or loss	(95)	-	(95,566)	(1)
Other comprehensive income for the year, net of income tax	<u>171,329</u>	<u>1</u>	<u>590,026</u>	<u>2</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>\$ 11,814,666</u>	<u>40</u>	<u>\$ 11,487,206</u>	<u>44</u>
<b>NET PROFIT ATTRIBUTABLE TO:</b>				
Owners of the Parent	\$ 11,643,337	39	\$ 10,897,180	41
Non-controlling interests	-	-	-	-
	<u>\$ 11,643,337</u>	<u>39</u>	<u>\$ 10,897,180</u>	<u>41</u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Owners of the Parent	\$ 11,814,666	40	\$ 11,487,206	44
Non-controlling interests	-	-	-	-
	<u>\$ 11,814,666</u>	<u>40</u>	<u>\$ 11,487,206</u>	<u>44</u>
<b>EARNINGS PER SHARE</b>				
Basic	<u>\$ 1.38</u>		<u>\$ 1.29</u>	
Diluted	<u>\$ 1.37</u>		<u>\$ 1.28</u>	

**CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Bank					Other Equity		Total Equity
	Capital Stock		Retained Earnings			Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets	
	Shares (Thousand)	Amount	Legal Reserve	Special Reserve	Unappropriated Earnings			
BALANCE, JANUARY 1, 2014	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	-	-	-	-	(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
Appropriation of 2014 earnings								
Legal reserve	-	-	3,269,154	-	(3,269,154)	-	-	-
Cash dividends	-	-	-	-	(1,580,808)	-	-	(1,580,808)
Stock dividends	553,283	5,532,828	-	-	(5,532,828)	-	-	-
Net income for the year ended December 31, 2015	-	-	-	-	11,643,337	-	-	11,643,337
Other comprehensive income for the year ended December 31, 2015, net of tax	-	-	-	-	(369,776)	(17,082)	558,187	171,329
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	11,273,561	(17,082)	558,187	11,814,666
BALANCE, DECEMBER 31, 2015	8,457,323	\$ 84,573,232	\$ 20,291,944	\$ 12,020,521	\$ 11,613,831	\$ 733,874	\$ 241,557	\$ 129,474,959

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, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income before income tax	\$ 13,746,201	\$ 12,424,085
Non-cash (revenues and gains) or expenses and losses		
Bad debts expenses and guarantee liability provisions	329,372	(884,084)
Depreciation expenses	567,004	596,870
Amortization expenses	135,264	118,595
Interest income	(32,991,503)	(31,862,471)
Interest expenses	12,075,574	12,524,515
Dividends income	(345,033)	(292,404)
Net gain on financial assets and liabilities at fair value through profit or loss	297,723	(1,425,094)
(Gain) losses on disposal of investments	(181,117)	30,843
Unrealized foreign exchange (gain) losses	(704,511)	549,606
Other adjustments	(112,546)	167,029
Changes in operating assets and liabilities		
Decrease (increase) in due from the Central Bank	7,455,792	(6,206,427)
(Increase) decrease in financial assets at fair value through profit or loss	(5,590,573)	32,600,657
Decrease (increase) in receivables	1,639,599	(36,679)
Increase in loans	(63,078,423)	(115,464,623)
Increase in available-for-sale financial assets	(19,278,268)	(7,310,588)
(Increase) decrease in held-to-maturity financial assets	(22,140,196)	43,262,610
Decrease (increase) in other financial assets	46,950,053	(39,440,661)
Decrease (increase) in other assets	71,764	(98,708)
Increase in due to the Central Bank and banks	11,201,771	7,891,621
Increase in deposits and remittances	94,770,426	80,079,186
(Decrease) Increase in payables	(6,081,578)	3,897,264
Increase (decrease) in financial liabilities at fair value through profit or loss	1,976,567	(6,492,281)
Decrease in reserve for liabilities	(98,774)	(114,726)
Increase (decrease) in other financial liabilities	450,780	(47,612)
Increase in other liabilities	<u>264,593</u>	<u>706,697</u>
Cash flows generated from (used in) operations	41,329,961	(14,826,780)
Interest received	32,563,180	29,948,559
Dividend received	345,033	292,404
Interest paid	(12,356,946)	(12,157,939)
Income taxes refund	529,830	203,103
Income taxes paid	<u>(2,004,534)</u>	<u>(657,281)</u>
Net cash flows generated from operating activities	<u>60,406,524</u>	<u>2,802,066</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(566,799)	(567,103)
Acquisition of investment property	(998)	(133)

(Continued)

# CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
Acquisition of intangible assets	\$ (108,820)	\$ (500,377)
Proceeds from disposal of property and equipment	<u>32</u>	<u>1,449</u>
Net cash used in investing activities	<u>(676,585)</u>	<u>(1,066,164)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in due to the Central Bank and call loans from banks	(8,401,985)	(9,615,371)
Proceeds from issuance of bank notes	-	25,835,000
Repayment of bank notes	(13,350,000)	(5,000,000)
Cash dividends distributed	(1,580,808)	(4,649,435)
Increase in securities sold under repurchase agreements	<u>85,353</u>	<u>22,103</u>
Net cash flows (used in) generated from financing activities	<u>(23,247,440)</u>	<u>6,592,297</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(10,707)</u>	<u>700,170</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	36,471,792	9,028,369
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>82,228,233</u>	<u>73,199,864</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 118,700,025</u>	<u>\$ 82,228,233</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents in consolidated balance sheet	\$ 31,225,679	\$ 39,586,197
Call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7 permitted by the Financial Supervisory Commission	<u>87,474,346</u>	<u>42,642,036</u>
Cash and cash equivalents at end of period	<u>\$ 118,700,025</u>	<u>\$ 82,228,233</u>

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying balance sheets of Chang Hwa Commercial Bank, Ltd. as of December 31, 2015 and 2014, and related statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014. These financial statements are the responsibility of Chang Hwa Commercial Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chang Hwa Commercial Bank, Ltd. as of December 31, 2015 and 2014, and their financial performance and their cash flows for the years ended December 31, 2015 and 2014, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms.

February 25, 2016

**CHANG HWA COMMERCIAL BANK, LTD.**

**BALANCE SHEETS**  
**DECEMBER 31, 2015 AND 2014**  
(In Thousands of New Taiwan Dollars)

ASSETS	2015		2014	
	Amount	%	Amount	%
Cash and cash equivalents	\$ 31,225,669	2	\$ 39,586,187	2
Due from the Central Bank and call loans to banks	146,654,212	8	109,277,694	6
Financial assets at fair value through profit or loss	43,518,615	2	37,825,737	2
Derivative financial assets for hedging	192,521	-	27,629	-
Receivables, net	19,898,538	1	21,865,339	1
Current tax assets	55,436	-	581,958	-
Loans, net	1,321,934,363	69	1,259,366,749	69
Available-for-sale financial assets, net	67,415,202	3	46,145,608	3
Held-to-maturity financial assets, net	205,777,255	11	183,637,059	10
Investments accounted for using the equity method, net	635,777	-	528,399	-
OTHER FINANCIAL ASSETS, NET				
Financial assets carried at cost	4,167,009	-	4,167,009	1
Debt investments without active market	2,051,074	-	3,400,342	-
Other miscellaneous financial assets	<u>25,530,337</u>	<u>2</u>	<u>71,155,311</u>	<u>4</u>
Other financial assets, net	<u>31,748,420</u>	<u>2</u>	<u>78,722,662</u>	<u>5</u>
Property and equipment, net	22,249,904	1	23,818,940	1
Investment property, net	12,536,509	1	11,012,440	1
Intangible assets, net	500,710	-	473,336	-
Deferred tax assets	2,367,489	-	3,186,032	-
Other assets	<u>343,041</u>	<u>-</u>	<u>392,392</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$ 1,907,053,661</u></b>	<b><u>100</u></b>	<b><u>\$ 1,816,448,161</u></b>	<b><u>100</u></b>
<b>LIABILITIES AND EQUITY</b>				
Due to the Central Bank and banks	\$ 124,025,228	7	\$ 124,155,182	7
Finance due to banks	3,879,840	-	950,100	-
Financial liabilities at fair value through profit or loss	22,732,139	1	20,858,363	1
Securities sold under repurchase agreements	4,612,047	-	4,526,694	-
Payables	23,064,707	1	29,412,505	2
Current tax liabilities	82,436	-	806,295	-
Deposits and remittances	1,548,700,629	81	1,453,680,321	80
Bank note payables	35,176,580	2	48,463,938	3
Other financial liabilities	1,075,196	-	624,416	-
Reserve for liabilities	4,371,316	-	4,034,679	-
Deferred tax liabilities	6,644,859	1	6,738,024	-
Other liabilities	<u>3,213,725</u>	<u>-</u>	<u>2,956,543</u>	<u>-</u>
Total liabilities	<u>1,777,578,702</u>	<u>93</u>	<u>1,697,207,060</u>	<u>93</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK</b>				
Capital stock				
Common stock	84,573,232	5	79,040,404	5
Retained earnings				
Legal reserve	20,291,944	1	17,022,790	1
Special reserve	12,020,521	1	12,020,521	1
Unappropriated earnings	11,613,831	-	10,723,060	-
Other equity				
Exchange differences on translation of foreign financial statements	733,874	-	750,956	-
Unrealized gains (losses) on available-for-sale financial assets	<u>241,557</u>	<u>-</u>	<u>(316,630)</u>	<u>-</u>
Total equity	<u>129,474,959</u>	<u>7</u>	<u>119,241,101</u>	<u>7</u>
<b>TOTAL</b>	<b><u>\$ 1,907,053,661</u></b>	<b><u>100</u></b>	<b><u>\$ 1,816,448,161</u></b>	<b><u>100</u></b>

## CHANG HWA COMMERCIAL BANK, LTD.

### STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
INTEREST INCOME	\$ 32,991,503	112	\$ 31,862,471	122
INTEREST EXPENSES	<u>(12,077,770)</u>	<u>(41)</u>	<u>(12,526,882)</u>	<u>(48)</u>
NET INTEREST INCOME	<u>20,913,733</u>	<u>71</u>	<u>19,335,589</u>	<u>74</u>
NET INCOME OTHER THAN NET INTEREST INCOME				
Net service fee and commissions income	4,150,988	14	3,894,348	15
Gain on financial assets and liabilities at fair value through profit or loss	406,788	1	875,488	3
Realized gain on available-for-sale financial assets	280,188	1	118,753	-
Share of profit (loss) of associates and joint ventures accounted for using equity method	519,777	2	412,399	2
Foreign exchange gains (losses)	1,647,056	6	986,655	4
Other miscellaneous net income	<u>1,498,673</u>	<u>5</u>	<u>547,411</u>	<u>2</u>
Net income other than net interest income	<u>8,503,470</u>	<u>29</u>	<u>6,835,054</u>	<u>26</u>
NET REVENUE AND GAINS	<u>29,417,203</u>	<u>100</u>	<u>26,170,643</u>	<u>100</u>
BAD DEBTS EXPENSES AND GUARANTEE LIABILITY PROVISIONS	<u>(329,372)</u>	<u>(1)</u>	<u>884,084</u>	<u>3</u>
OPERATING EXPENSES				
Employee benefits expenses	(10,130,844)	(35)	(9,840,206)	(37)
Depreciation and amortization expenses	(701,267)	(2)	(714,488)	(3)
Other general and administrative expenses	<u>(4,615,980)</u>	<u>(16)</u>	<u>(4,160,416)</u>	<u>(16)</u>
Total operating expenses	<u>(15,448,091)</u>	<u>(53)</u>	<u>(14,715,110)</u>	<u>(56)</u>
INCOME BEFORE INCOME TAX	13,639,740	46	12,339,617	47
INCOME TAX EXPENSE	<u>(1,996,403)</u>	<u>(7)</u>	<u>(1,442,437)</u>	<u>(5)</u>
NET INCOME	<u>11,643,337</u>	<u>39</u>	<u>10,897,180</u>	<u>42</u>

(Continued)

## CHANG HWA COMMERCIAL BANK, LTD.

### STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
<b>OTHER COMPREHENSIVE INCOME</b>				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ (445,513)	(1)	\$ (254,709)	(1)
Income tax relating to items that will not be reclassified subsequently to profit or loss	75,737	-	43,301	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation foreign operations	(10,707)	-	700,170	3
Unrealized gain (loss) on available-for-sale financial assets	551,907	2	196,830	1
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>(95)</u>	<u>-</u>	<u>(95,566)</u>	<u>(1)</u>
Other comprehensive income for the year, net of income tax	<u>171,329</u>	<u>1</u>	<u>590,026</u>	<u>2</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>\$ 11,814,666</u>	<u>40</u>	<u>\$ 11,487,206</u>	<u>44</u>
<b>EARNINGS PER SHARE</b>				
Basic	<u>\$1.38</u>		<u>\$1.29</u>	
Diluted	<u>\$1.37</u>		<u>\$1.28</u>	

**CHANG HWA COMMERCIAL BANK, LTD.**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the BANK					Other Equity		Total Equity
	Capital Stock		Retained Earnings			Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets	
	Shares (Thousand)	Amount	Legal Reserve	Special Reserve	Unappropriated Earnings			
BALANCE, JANUARY 1, 2014	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	-	-	-	-	(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
Appropriation of 2014 earnings								
Legal reserve	-	-	3,269,154	-	(3,269,154)	-	-	-
Cash dividends	-	-	-	-	(1,580,808)	-	-	(1,580,808)
Stock dividends	553,283	5,532,828	-	-	(5,532,828)	-	-	-
Net income for the year ended December 31, 2015	-	-	-	-	11,643,337	-	-	11,643,337
Other comprehensive income for the year ended December 31, 2015, net of tax	-	-	-	-	(369,776)	(17,082)	558,187	171,329
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	11,273,561	(17,082)	558,187	11,814,666
BALANCE, DECEMBER 31, 2015	8,457,323	\$ 84,573,232	\$ 20,291,944	\$ 12,020,521	\$ 11,613,831	\$ 733,874	\$ 241,557	\$ 129,474,959

# CHANG HWA COMMERCIAL BANK, LTD.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income before income tax	\$ 13,639,740	\$ 12,339,617
Non-cash (revenues and gains) or expenses and losses		
Bad debts expenses and guarantee liability provisions	329,372	(884,084)
Depreciation expenses	566,003	595,893
Amortization expenses	135,264	118,595
Share of profit of subsidiaries accounted for using equity method	(519,777)	(412,399)
Interest income	(32,991,503)	(31,862,471)
Interest expenses	12,077,770	12,526,882
Dividends income	(345,033)	(292,404)
Net gain on financial assets and liabilities at fair value through profit or loss	297,723	(1,425,094)
(Gain) losses on disposal of investments	(181,117)	30,843
Unrealized foreign exchange (gain) losses	(704,511)	549,606
Other adjustments	(112,545)	167,030
Changes in operating assets and liabilities		
Decrease (increase) in due from the Central Bank	7,455,792	(6,206,427)
(Increase) decrease in financial assets at fair value through profit or loss	(5,590,573)	32,600,657
Decrease (increase) in receivables	1,526,529	(31,184)
Increase in loans	(63,078,423)	(115,464,623)
Increase in available-for-sale financial assets	(19,278,268)	(7,310,588)
(Increase) decrease in held-to-maturity financial assets	(22,140,196)	43,262,610
Decrease (increase) in other financial assets	46,950,053	(39,440,661)
Decrease (increase) in other assets	71,764	(98,437)
Increase in due to the Central Bank and banks	11,201,771	7,891,621
Increase in deposits and remittances	95,020,308	80,032,636
(Decrease) increase in payables	(6,089,140)	3,868,501
Increase (decrease) in financial liabilities at fair value through profit or loss	1,976,567	(6,492,281)
Decrease in reserve for liabilities	(98,774)	(114,726)
Increase (decrease) in other financial liabilities	450,780	(47,612)
Increase in other liabilities	<u>264,692</u>	<u>706,697</u>
Cash flows generated from (used in) operations	40,834,268	(15,391,803)
Interest received	32,563,180	29,948,559
Dividend received	757,432	767,378
Interest paid	(12,359,142)	(12,160,306)
Income taxes refund	529,830	203,103
Income taxes paid	<u>(1,919,244)</u>	<u>(566,756)</u>
Net cash flows generated from operating activities	<u>60,406,324</u>	<u>2,800,175</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(566,599)	(565,212)
Acquisition of investment property	(998)	(133)

(Continued)



# CHANG HWA COMMERCIAL BANK, LTD.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
Acquisition of intangible assets	\$ (108,820)	\$ (500,377)
Proceeds from disposal of property and equipment	<u>32</u>	<u>1,449</u>
Net cash used in investing activities	<u>(676,385)</u>	<u>(1,064,273)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in due to the Central Bank and call loans from banks	(8,401,985)	(9,615,371)
Proceeds from issuance of bank notes	-	25,835,000
Repayment of bank notes	(13,350,000)	(5,000,000)
Cash dividends distributed	(1,580,808)	(4,649,435)
Increase in securities sold under repurchase agreements	<u>85,353</u>	<u>22,103</u>
Net cash flows (used in) generated from financing activities	<u>(23,247,440)</u>	<u>6,592,297</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(10,707)</u>	<u>700,170</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	36,471,792	9,028,369
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>82,228,223</u>	<u>73,199,854</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 118,700,015</u>	<u>\$ 82,228,223</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents in consolidated balance sheet	\$ 31,225,669	\$ 39,586,187
Call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7 permitted by the Financial Supervisory Commission	<u>87,474,346</u>	<u>42,642,036</u>
Cash and cash equivalents at end of period	<u>\$ 118,700,015</u>	<u>\$ 82,228,223</u>