

**Cathay United Bank**  
**Financial Statements**  
**For The Six-Month Periods Ended**  
**30 June 2014 and 2013**  
**With Independent Auditors' Report**

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

## Report of Independent Auditors

### English Translation of Audit Report Originally Issued in Chinese

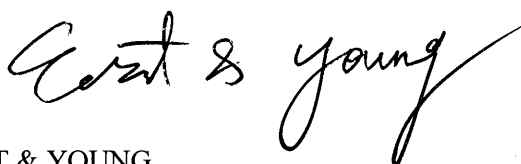
The Board of Directors  
Cathay United Bank

We have audited the accompanying balance sheets of Cathay United Bank (“The Bank”) as of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, and the related statements of comprehensive income, changes in equity and cash flows for the six-month periods ended 30 June 2014 and 2013. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the “Rules Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants” and auditing standards generally accepted in the Republic of China (“ROC”). Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, and the results of its operations and its cash flows for the six-month periods ended 30 June 2014 and 2013 in conformity with requirements of the “Regulations Governing the Preparation of Financial Reports by Public Banks”, the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the “Regulations Governing the Preparation of Financial Reports by Securities Firms”.

As described in Note IV to the financial statements, the Bank has changed the subsequent measurements of investment properties from cost model to fair value model from 2014, and the Bank have retrospectively restated the financial statements for the six-month periods ended 30 June 2013 and the balance sheets as of 1 January 2013 and 31 December 2013.



ERNST & YOUNG  
Taipei, Taiwan  
The Republic of China  
27 August 2014

#### Notice to Readers

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with IFRSs recognized by the Financial Supervisory Commission and not those of any other jurisdiction. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets

30 June 2014 and 31 December 2013

(Expressed in thousands of dollars)

| Assets  | Notes             | 2014.6.30              |                     | 2013.12.31             |                     |
|---|-------------------|------------------------|---------------------|------------------------|---------------------|
|   |                   | NT\$                   | US\$                | NT\$                   | US\$                |
| Cash and cash equivalents                                 | IV, VI and VII    | \$109,399,998          | \$3,662,538         | \$66,775,540           | \$2,238,536         |
| Due from the Central Bank and call loans to banks         | VI and VII        | 124,634,758            | 4,172,573           | 140,479,847            | 4,709,348           |
| Financial assets at fair value through profit or loss     | IV, V and VI      | 130,142,283            | 4,356,956           | 162,997,211            | 5,464,204           |
| Derivative financial assets for hedging                   | IV and VI         | 637,445                | 21,341              | 837,179                | 28,065              |
| Securities purchased under agreements to resell           | IV                | 19,216,895             | 643,351             | 7,645,763              | 256,311             |
| Receivables, net  | IV, V, VI and VII | 83,455,469             | 2,793,956           | 120,044,971            | 4,024,303           |
| Assets held for sale, net                                 |                   | -                      | -                   | 81,950                 | 2,747               |
| Discounts and loans, net                                  | IV, V, VI and VII | 1,091,318,417          | 36,535,601          | 1,013,723,116          | 33,983,343          |
| Available-for-sale financial assets, net                  | IV, V and VI      | 64,515,005             | 2,159,860           | 67,046,565             | 2,247,622           |
| Held-to-maturity financial assets, net                    | IV, V and VI      | 50,043,774             | 1,675,386           | 50,711,678             | 1,700,023           |
| Investments accounted for using equity method, net        | IV and VI         | 6,995,151              | 234,186             | 5,836,126              | 195,646             |
| Other financial assets, net                               | IV and V          | 4,223                  | 141                 | 22,154                 | 743                 |
| Investments in debt securities with no active market, net | IV, V and VI      | 331,806,014            | 11,108,337          | 280,272,013            | 9,395,642           |
| Property and equipment, net                               | IV, VI and VII    | 22,206,288             | 743,431             | 22,240,641             | 745,580             |
| Investment properties, net                                | IV, V and VI      | 4,371,164              | 146,340             | 4,479,508              | 150,168             |
| Intangible assets, net                                    | IV, V and VI      | 7,039,438              | 235,669             | 7,045,413              | 236,186             |
| Deferred tax assets                                       | IV and V          | 1,215,822              | 40,704              | 1,456,529              | 48,828              |
| Other assets, net   | IV, VI and VII    | 11,248,064             | 376,567             | 7,143,444              | 239,472             |
| <b>Total assets</b>                                       |                   | <b>\$2,058,250,208</b> | <b>\$68,906,937</b> | <b>\$1,958,839,648</b> | <b>\$65,666,767</b> |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets(continued)

30 June 2013 and 1 January 2013

(Expressed in thousands of dollars)

| Assets  | Notes             | 2013.6.30       |              | 2013.1.1        |              |
|---|-------------------|-----------------|--------------|-----------------|--------------|
|   |                   | NT\$            | US\$         | NT\$            | US\$         |
| Cash and cash equivalents                                 | IV, VI and VII    | \$44,565,276    | \$1,487,493  | \$33,496,114    | \$1,153,050  |
| Due from the Central Bank and call loans to banks         | VI and VII        | 83,210,460      | 2,777,385    | 98,844,688      | 3,402,571    |
| Financial assets at fair value through profit or loss     | IV, V and VI      | 76,522,933      | 2,554,170    | 67,796,967      | 2,333,803    |
| Derivative financial assets for hedging                   | IV and VI         | 1,017,819       | 33,973       | 1,203,138       | 41,416       |
| Securities purchased under agreements to resell           | IV                | 5,492,597       | 183,331      | -               | -            |
| Receivables, net  | IV, V, VI and VII | 84,437,535      | 2,818,342    | 50,728,353      | 1,746,243    |
| Discounts and loans, net                                  | IV, V, VI and VII | 981,314,522     | 32,754,156   | 986,516,412     | 33,959,257   |
| Available-for-sale financial assets, net                  | IV, V and VI      | 58,141,694      | 1,940,644    | 63,186,407      | 2,175,091    |
| Held-to-maturity financial assets, net                    | IV, V and VI      | 48,795,146      | 1,628,676    | 20,542,870      | 707,156      |
| Investments accounted for using equity method, net        | IV and VI         | 4,415,315       | 147,374      | 5,038,973       | 173,459      |
| Other financial assets, net                               | IV and V          | 656,262         | 21,905       | 13,619          | 469          |
| Investments in debt securities with no active market, net | IV, V and VI      | 442,136,122     | 14,757,547   | 424,043,663     | 14,597,028   |
| Property and equipment, net                               | IV, VI and VII    | 22,062,224      | 736,390      | 21,896,653      | 753,757      |
| Investment properties, net                                | IV, V and VI      | 4,491,254       | 149,908      | 4,439,924       | 152,837      |
| Intangible assets, net                                    | IV, V and VI      | 7,110,022       | 237,317      | 7,164,320       | 246,620      |
| Deferred tax assets                                       | IV and V          | 1,648,909       | 55,037       | 1,550,746       | 53,382       |
| Other assets, net   | IV, VI and VII    | 6,785,333       | 226,480      | 4,542,369       | 156,364      |
| Total assets  |                   | \$1,872,803,423 | \$62,510,128 | \$1,791,005,216 | \$61,652,503 |

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



English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets (continued)

30 June 2014 and 31 December 2013

(Expressed in thousands of dollars)

| Liabilities and equity                                     | Notes          | 2014.6.30              |                     | 2013.12.31             |                     |
|--|----------------|------------------------|---------------------|------------------------|---------------------|
|  |                | NT\$                   | US\$                | NT\$                   | US\$                |
| <b>Liabilities</b>   |                |                        |                     |                        |                     |
| Due to the Central Bank and call loans from banks          | VI and VII     | \$61,841,533           | \$2,070,356         | \$50,630,112           | \$1,697,288         |
| Funds borrowed from the Central Bank and other banks       |                | 1,495,750              | 50,075              | 1,497,500              | 50,201              |
| Financial liabilities at fair value through profit or loss | IV, V and VI   | 13,350,569             | 446,956             | 11,271,187             | 377,847             |
| Securities sold under agreements to repurchase             | IV, VI and VII | 62,862,503             | 2,104,536           | 58,681,600             | 1,967,201           |
| Payables   | VI and VII     | 14,804,764             | 495,640             | 14,795,810             | 496,004             |
| Deposits and remittances                                   | VI and VII     | 1,627,929,567          | 54,500,488          | 1,596,302,557          | 53,513,328          |
| Financial debentures payable                               | IV and VI      | 67,214,791             | 2,250,244           | 52,417,213             | 1,757,198           |
| Other financial liabilities                                | VI             | 65,070,447             | 2,178,455           | 36,145,158             | 1,211,705           |
| Provisions   | IV, V and VI   | 2,109,444              | 70,621              | 2,035,564              | 68,239              |
| Deferred tax liabilities                                   | IV and V       | 782,308                | 26,190              | 618,631                | 20,739              |
| Other liabilities  | VI and VII     | 5,324,199              | 178,246             | 4,719,433              | 158,211             |
| <b>Total liabilities</b>                                   |                | <b>1,922,785,875</b>   | <b>64,371,807</b>   | <b>1,829,114,765</b>   | <b>61,317,961</b>   |
| <b>Equity</b>  |                |                        |                     |                        |                     |
| Capital stock  | VI             |                        |                     |                        |                     |
| Common stock   |                | 67,112,762             | 2,246,828           | 64,668,494             | 2,167,901           |
| Capital reserves   | VI             | 23,969,412             | 802,458             | 23,971,498             | 803,604             |
| Retained earnings  | VI             |                        |                     |                        |                     |
| Legal reserves   |                | 29,772,901             | 996,749             | 26,281,089             | 881,029             |
| Special reserves   |                | 1,880,952              | 62,971              | 1,890,118              | 63,363              |
| Undistributed earnings                                     |                | 10,685,071             | 357,719             | 11,785,535             | 395,090             |
| Other equity   |                | 2,043,235              | 68,405              | 1,128,149              | 37,819              |
| <b>Total equity</b>  |                | <b>135,464,333</b>     | <b>4,535,130</b>    | <b>129,724,883</b>     | <b>4,348,806</b>    |
| <b>Total liabilities and equity</b>                        |                | <b>\$2,058,250,208</b> | <b>\$68,906,937</b> | <b>\$1,958,839,648</b> | <b>\$65,666,767</b> |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets (continued)

30 June 2013 and 1 January 2013

(Expressed in thousands of dollars)

| Liabilities and equity                                     | Notes          | 2013.6.30              |                     | 2013.1.1               |                     |
|--|----------------|------------------------|---------------------|------------------------|---------------------|
|  |                | NT\$                   | US\$                | NT\$                   | US\$                |
| Liabilities  |                |                        |                     |                        |                     |
| Due to the Central Bank and call loans from banks          | VI and VII     | \$40,472,413           | \$1,350,882         | \$51,891,103           | \$1,786,269         |
| Funds borrowed from the Central Bank and other banks       |                | 1,506,000              | 50,267              | 1,456,800              | 50,148              |
| Financial liabilities at fair value through profit or loss | IV, V and VI   | 7,178,537              | 239,604             | 4,967,738              | 171,006             |
| Securities sold under agreements to repurchase             | IV, VI and VII | 56,427,177             | 1,883,417           | 20,369,249             | 701,179             |
| Payables   | VI and VII     | 25,348,475             | 846,077             | 21,225,349             | 730,649             |
| Deposits and remittances                                   | VI and VII     | 1,550,595,088          | 51,755,510          | 1,520,735,366          | 52,348,894          |
| Financial debentures payable                               | IV and VI      | 52,649,271             | 1,757,319           | 42,518,631             | 1,463,636           |
| Other financial liabilities                                | VI             | 20,578,371             | 686,862             | 17,426,191             | 599,869             |
| Provisions   | IV, V and VI   | 2,009,171              | 67,062              | 2,009,384              | 69,170              |
| Deferred tax liabilities                                   | IV and V       | 559,959                | 18,690              | 634,704                | 21,849              |
| Other liabilities  | VI and VII     | 4,220,427              | 140,869             | 4,114,007              | 141,618             |
| Total liabilities  |                | <u>1,761,544,889</u>   | <u>58,796,559</u>   | <u>1,687,348,522</u>   | <u>58,084,287</u>   |
| Equity   |                |                        |                     |                        |                     |
| Capital stock  | VI             |                        |                     |                        |                     |
| Common stock   |                | 52,277,026             | 1,744,894           | 52,277,026             | 1,799,554           |
| Reserves for capital increase                              |                | 9,147,688              | 305,330             | -                      | -                   |
| Capital reserves   | VI             | 15,213,292             | 507,787             | 15,213,292             | 523,693             |
| Retained earnings  | VI             |                        |                     |                        |                     |
| Legal reserves   |                | 26,281,089             | 877,206             | 22,360,652             | 769,730             |
| Special reserves   |                | 1,890,118              | 63,088              | 1,890,118              | 65,064              |
| Undistributed earnings                                     |                | 5,205,203              | 173,738             | 10,512,233             | 361,866             |
| Other equity   |                | 1,244,118              | 41,526              | 1,403,373              | 48,309              |
| Total equity   |                | <u>111,258,534</u>     | <u>3,713,569</u>    | <u>103,656,694</u>     | <u>3,568,216</u>    |
| Total liabilities and equity                               |                | <u>\$1,872,803,423</u> | <u>\$62,510,128</u> | <u>\$1,791,005,216</u> | <u>\$61,652,503</u> |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of comprehensive income

For the six-month periods ended 30 June 2014 and 2013

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

| Items   | Notes          | 2014.1.1-2014.6.30 |           | 2013.1.1-2013.6.30 |           |
|---|----------------|--------------------|-----------|--------------------|-----------|
|   |                | NT\$               | US\$      | NT\$               | US\$      |
| Interest income   | IV, VI and VII | \$18,820,299       | \$630,073 | \$16,100,794       | \$537,410 |
| Interest expense  | VI and VII     | (6,739,487)        | (225,627) | (5,821,314)        | (194,303) |
| Net interest income   |                | 12,080,812         | 404,446   | 10,279,480         | 343,107   |
| Non-interest income   |                |                    |           |                    |           |
| Net fee income  | IV, VI and VII | 5,130,579          | 171,764   | 4,375,227          | 146,036   |
| Gain on financial assets and liabilities at fair value through profit or loss | VI and VII     | 2,694,221          | 90,198    | 1,224,222          | 40,862    |
| Realized gain on available-for-sale financial assets                          |                | 1,214,795          | 40,669    | 547,341            | 18,269    |
| Gain on foreign currency exchange, net  | IV             | 476,489            | 15,952    | 515,829            | 17,217    |
| Impairment loss of assets   |                | (7,123)            | (238)     | -                  | -         |
| Investment income recognized by the equity method                             |                | 90,152             | 3,018     | 129,936            | 4,337     |
| Gain on investment in debt securities with no active market                   |                | -                  | -         | 229,627            | 7,665     |
| Others  | IV, VI and VII | 604,377            | 20,234    | 484,806            | 16,182    |
| Net non-interest income   |                | 10,203,490         | 341,597   | 7,506,988          | 250,568   |
| Net operating income  |                | 22,284,302         | 746,043   | 17,786,468         | 593,675   |
| Bad debt expense and losses on guarantees                                     |                | (71,400)           | (2,390)   | (37,603)           | (1,255)   |
| Operating expenses  |                |                    |           |                    |           |
| Employee benefits expenses  | IV, V and VI   | (4,728,597)        | (158,306) | (4,389,198)        | (146,502) |
| Depreciation and amortization expenses  | VI             | (494,653)          | (16,560)  | (551,783)          | (18,417)  |
| Other general and administrative expenses                                     | IV, VI and VII | (4,916,709)        | (164,604) | (3,978,383)        | (132,790) |
| Total operating expenses  |                | (10,139,959)       | (339,470) | (8,919,364)        | (297,709) |
| Income from continuing operations before income taxes                         |                | 12,072,943         | 404,183   | 8,829,501          | 294,710   |
| Income tax expense  | IV and VI      | (1,543,200)        | (51,664)  | (1,068,406)        | (35,661)  |
| Net income  |                | 10,529,743         | 352,519   | 7,761,095          | 259,049   |
| Other comprehensive income  | VI             |                    |           |                    |           |
| Exchange differences on translation of foreign operations                     |                | (86,646)           | (2,901)   | 380,042            | 12,685    |
| Net gains (losses) on available-for-sale financial assets                     |                | 972,278            | 32,550    | (502,837)          | (16,784)  |
| Share of other comprehensive profit of associates                             |                | 20,086             | 673       | (9,570)            | (319)     |
| Income tax relating to components of other comprehensive income               |                | 9,368              | 314       | (26,890)           | (898)     |
| Other comprehensive income  |                | 915,086            | 30,636    | (159,255)          | (5,316)   |
| Total comprehensive income  |                | \$11,444,829       | \$383,155 | \$7,601,840        | \$253,733 |
| Earnings per share (In dollars)   |                |                    |           |                    |           |
| Net income from continuing operations   | VI             | \$1.57             | \$0.0526  | \$1.22             | \$0.0407  |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of changes in equity

For the six-month periods ended 30 June 2014 and 2013

(Expressed in thousands of dollars)

| ITEMS  | Capital Stock |             |                                   |           | Retained earnings |           |                |           |                  |          |                        |           | Equity adjustment                       |            |   |          |                     |         |           |        |             |          | Total Equity  |             |         |      |
|--|---------------|-------------|-----------------------------------|-----------|-------------------|-----------|----------------|-----------|------------------|----------|------------------------|-----------|---|------------|---|----------|---------------------|---------|-----------|--------|-------------|----------|---------------|-------------|---------|------|
|  | Capital stock |             | Stock dividends to be distributed |           | Capital reserves  |           | Legal reserves |           | Special reserves |          | Undistributed earnings |           | Foreign currency translation adjustment |            | Unrealized gains or losses on available-for-sale financial assets |          | Revaluation surplus |         | Others    |        | Subtotal    |          | Total Equity  |             |         |      |
|  | NT\$          | US\$        | NT\$                              | US\$      | NT\$              | US\$      | NT\$           | US\$      | NT\$             | US\$     | NT\$                   | US\$      | NT\$                                    | US\$       | NT\$  | US\$     | NT\$                | US\$    | NT\$      | US\$   | NT\$        | US\$     | NT\$          | US\$        | NT\$    | US\$ |
| Balance, 1 January 2013 (Revised)                                      | \$52,277,026  | \$1,744,894 | \$-                               | \$-       | \$15,213,292      | \$507,787 | \$22,360,652   | \$746,350 | \$1,890,118      | \$63,088 | \$10,512,233           | \$350,875 | \$(601,247)                             | \$(20,068) | \$2,005,850   | \$66,951 | \$-                 | \$-     | \$(1,230) | \$(41) | \$1,403,373 | \$46,842 | \$103,656,694 | \$3,459,836 |         |      |
| Earning appropriation and distribution (Note)                          |               |             |                                   |           |                   |           |                |           |                  |          |                        |           |   |            |   |          |                     |         |           |        |             |          |               |             |         |      |
| Legal reserves   | -             | -           | -                                 | -         | -                 | -         | 3,920,437      | 130,856   | -                | -        | (3,920,437)            | (130,856) | -                                       | -          | -   | -        | -                   | -       | -         | -      | -           | -        | -             | -           | -       | -    |
| Stock dividends  | -             | -           | 9,147,688                         | 305,330   | -                 | -         | -              | -         | -                | -        | (9,147,688)            | (305,330) | -                                       | -          | -   | -        | -                   | -       | -         | -      | -           | -        | -             | -           | -       | -    |
| Net income for the six-month period ended 30 June 2013 (Revised)       | -             | -           | -                                 | -         | -                 | -         | -              | -         | -                | -        | 7,761,095              | 259,049   | -                                       | -          | -   | -        | -                   | -       | -         | -      | -           | -        | -             | 7,761,095   | 259,049 |      |
| Other comprehensive income for the six-month period ended 30 June 2013 | -             | -           | -                                 | -         | -                 | -         | -              | -         | -                | -        | -                      | -         | 315,436                                 | 10,528     | (474,691)   | (15,844) | -                   | -       | -         | -      | (159,255)   | (5,316)  | (159,255)     | (5,316)     |         |      |
| Total comprehensive income for the six-month period ended 30 June 2013 | -             | -           | -                                 | -         | -                 | -         | -              | -         | -                | -        | 7,761,095              | 259,049   | 315,436                                 | 10,528     | (474,691)   | (15,844) | -                   | -       | -         | -      | (159,255)   | (5,316)  | 7,601,840     | 253,733     |         |      |
| Balance, 30 June 2013 (Revised)  | \$52,277,026  | \$1,744,894 | \$9,147,688                       | \$305,330 | \$15,213,292      | \$507,787 | \$26,281,089   | \$877,206 | \$1,890,118      | \$63,088 | \$5,205,203            | \$173,738 | \$(285,811)                             | \$(9,540)  | \$1,531,159   | \$51,107 | \$-                 | \$-     | \$(1,230) | \$(41) | \$1,244,118 | \$41,526 | \$111,258,534 | \$3,713,569 |         |      |
| Balance, 1 January 2014 (Revised)                                      | \$64,668,494  | \$2,164,998 | \$-                               | \$-       | \$23,971,498      | \$802,528 | \$26,281,089   | \$879,849 | \$1,890,118      | \$63,278 | \$11,785,535           | \$394,560 | \$(309,082)                             | \$(10,347) | \$1,292,205   | \$43,261 | \$145,979           | \$4,887 | \$(953)   | \$(32) | \$1,128,149 | \$37,769 | \$129,724,883 | \$4,342,982 |         |      |
| Earning appropriation and distribution (Note)                          |               |             |                                   |           |                   |           |                |           |                  |          |                        |           |   |            |   |          |                     |         |           |        |             |          |               |             |         |      |
| Legal reserves   | -             | -           | -                                 | -         | -                 | -         | 3,491,812      | 116,900   | -                | -        | (3,491,812)            | (116,900) | -                                       | -          | -   | -        | -                   | -       | -         | -      | -           | -        | -             | -           | -       | -    |
| Cash dividends   | -             | -           | -                                 | -         | -                 | -         | -              | -         | -                | -        | (5,703,293)            | (190,937) | -                                       | -          | -   | -        | -                   | -       | -         | -      | -           | -        | (5,703,293)   | (190,937)   |         |      |
| Stock dividends  | 2,444,268     | 81,830      | -                                 | -         | -                 | -         | -              | -         | -                | -        | (2,444,268)            | (81,830)  | -                                       | -          | -   | -        | -                   | -       | -         | -      | -           | -        | -             | -           | -       | -    |
| Net income for the six-month period ended 30 June 2014                 | -             | -           | -                                 | -         | -                 | -         | -              | -         | -                | -        | 10,529,743             | 352,519   | -                                       | -          | -   | -        | -                   | -       | -         | -      | -           | -        | 10,529,743    | 352,519     |         |      |
| Other comprehensive income for the six-month period ended 30 June 2014 | -             | -           | -                                 | -         | -                 | -         | -              | -         | -                | -        | -                      | -         | (71,916)                                | (2,408)    | 987,002   | 33,044   | -                   | -       | -         | -      | 915,086     | 30,636   | 915,086       | 30,636      |         |      |
| Total comprehensive income for the six-month period ended 30 June 2014 | -             | -           | -                                 | -         | -                 | -         | -              | -         | -                | -        | 10,529,743             | 352,519   | (71,916)                                | (2,408)    | 987,002   | 33,044   | -                   | -       | -         | -      | 915,086     | 30,636   | 11,444,829    | 383,155     |         |      |
| Net decrease in investments accounted for using equity method          | -             | -           | -                                 | -         | (2,086)           | (70)      | -              | -         | -                | -        | -                      | -         | -                                       | -          | -   | -        | -                   | -       | -         | -      | -           | -        | (2,086)       | (70)        |         |      |
| Reversal of special reserves   | -             | -           | -                                 | -         | -                 | -         | -              | -         | (9,166)          | (307)    | 9,166                  | 307       | -                                       | -          | -   | -        | -                   | -       | -         | -      | -           | -        | -             | -           | -       | -    |
| Balance, 30 June 2014  | \$67,112,762  | \$2,246,828 | \$-                               | \$-       | \$23,969,412      | \$802,458 | \$29,772,901   | \$996,749 | \$1,880,952      | \$62,971 | \$10,685,071           | \$357,719 | \$(380,998)                             | \$(12,755) | \$2,279,207   | \$76,305 | \$145,979           | \$4,887 | \$(953)   | \$(32) | \$2,043,235 | \$68,405 | \$135,464,333 | \$4,535,130 |         |      |

Note : Bouns to employees NT\$1,500 thousands deducted from statements of comprehensive income.

| Items  | 2014.1.1-2014.6.30 |                | 2013.1.1-2013.6.30  |                  |
|--|--------------------|----------------|---------------------|------------------|
|  | NT\$               | US\$           | NT\$                | US\$             |
| <b>Operating activities</b>  |                    |                |                     |                  |
| Net income before income tax   | \$12,072,943       | \$404,183      | \$8,829,501         | \$294,710        |
| Adjustment items:  |                    |                |                     |                  |
| Depreciation expenses  | 408,008            | 13,659         | 447,677             | 14,942           |
| Amortization expenses  | 86,645             | 2,901          | 104,106             | 3,475            |
| Bad debt expenses  | 71,400             | 2,390          | 37,603              | 1,255            |
| Interest expense   | 6,739,487          | 225,627        | 5,821,314           | 194,303          |
| Interest income  | (18,820,299)       | (630,073)      | (16,100,794)        | (537,410)        |
| Dividends income   | (261,941)          | (8,770)        | (97,560)            | (3,256)          |
| Proportionate share of gains from associates or joint venture under equity method                                  | (90,152)           | (3,018)        | (129,936)           | (4,337)          |
| (Gain) loss on disposal of property and equipments   | (30,996)           | (1,038)        | 960                 | 32               |
| Gain on disposal of investment properties  | (34,506)           | (1,155)        | -                   | -                |
| Impairment loss on non-financial assets  | 7,123              | 238            | -                   | -                |
| Gain on valuation of investment properties   | (7,611)            | (255)          | (51,330)            | (1,713)          |
| Foreign currency translation adjustment  | (5,497)            | (184)          | (26,730)            | (892)            |
| <b>Change in operating assets and liabilities</b>  |                    |                |                     |                  |
| Increase in due from the Central Bank and call loans to banks  | (1,716,587)        | (57,469)       | (1,354,660)         | (45,216)         |
| (Increase) decrease in financial assets at fair value through profit or loss                                       | 32,854,928         | 1,099,931      | (8,725,966)         | (291,254)        |
| Decrease in derivative financial assets for hedging  | 199,734            | 6,687          | 185,319             | 6,185            |
| (Increase) decrease in receivables   | 37,925,641         | 1,269,690      | (34,115,349)        | (1,138,696)      |
| (Increase) decrease in discounts and loans   | (77,772,563)       | (2,603,701)    | 4,969,012           | 165,855          |
| Decrease in available-for-sale financial assets  | 3,503,814          | 117,302        | 4,541,876           | 151,598          |
| (Increase) decrease in held-to-maturity financial assets   | 667,904            | 22,360         | (28,252,276)        | (943,000)        |
| Decrease in other financial assets   | 17,931             | 600            | 8,938               | 298              |
| Increase in investments in debt securities with no active market   | (51,534,002)       | (1,725,276)    | (18,092,459)        | (603,887)        |
| (Increase) decrease in other assets  | (3,200,071)        | (107,133)      | 226,924             | 7,574            |
| Increase (decrease) in due to the Central Bank and other banks   | 11,211,421         | 375,341        | (11,418,690)        | (381,131)        |
| Increase in financial liabilities at fair value through profit or loss   | 2,079,383          | 69,614         | 2,210,799           | 73,792           |
| Increase in securities sold under agreements to repurchase   | 4,180,903          | 139,970        | 36,057,928          | 1,203,536        |
| Increase (decrease) in payables  | (70,387)           | (2,356)        | 4,027,865           | 134,441          |
| Increase in deposits and remittances   | 31,627,010         | 1,058,822      | 29,859,722          | 996,653          |
| Increase in other financial liabilities  | 28,925,289         | 968,373        | 3,152,180           | 105,213          |
| Increase (decrease) in provisions  | 73,880             | 2,473          | (213)               | (7)              |
| Increase in other liabilities  | 712,160            | 23,842         | 93,148              | 3,109            |
| <b>Cash flows from operating activities</b>  | <b>19,820,992</b>  | <b>663,575</b> | <b>(17,791,091)</b> | <b>(593,828)</b> |
| Interest received  | 17,853,339         | 597,701        | 15,798,917          | 527,334          |
| Cash dividends received  | 261,941            | 8,770          | 97,560              | 3,256            |
| Interest paid  | (6,660,146)        | (222,971)      | (5,726,054)         | (191,123)        |
| Income tax paid  | (1,299,819)        | (43,516)       | (193,833)           | (6,470)          |
| Net cash flows from (used in) operating activities   | 29,976,307         | 1,003,559      | (7,814,501)         | (260,831)        |
| <b>Investing activities</b>  |                    |                |                     |                  |
| Increase in investments accounted for using equity method  | (1,291,333)        | (43,232)       | -                   | -                |
| Capital return due to capital decrease in equity-accounted investee  | 509                | 17             | -                   | -                |
| Purchase of property and equipment   | (349,462)          | (11,700)       | (618,833)           | (20,655)         |
| Proceeds from sale of property and equipment   | 51,589             | 1,727          | 349                 | 12               |
| Proceeds from sale of assets held for sale   | 65,981             | 2,209          | -                   | -                |
| Purchase of intangible assets  | (33,782)           | (1,131)        | (26,664)            | (890)            |
| Proceeds from sale of investment property  | 98,483             | 3,297          | -                   | -                |
| Increase in other assets   | (883,562)          | (29,580)       | (2,284,521)         | (76,252)         |
| Cash dividends received  | 1,187              | 40             | 39,569              | 1,320            |
| Net cash flows (used in) investing activities  | (2,340,390)        | (78,353)       | (2,890,100)         | (96,465)         |
| <b>Financing activities</b>  |                    |                |                     |                  |
| Increase (decrease) in fund borrowed from the Central Bank and call loans from banks                               | (1,750)            | (58)           | 49,200              | 1,642            |
| Increase in financial debentures payable   | 14,797,578         | 495,399        | 10,130,640          | 338,139          |
| Decrease in other liabilities  | (23,261)           | (779)          | (211,978)           | (7,075)          |
| Distribution of cash dividends   | (5,703,293)        | (190,937)      | -                   | -                |
| Net cash flows from financing activities   | 9,069,274          | 303,625        | 9,967,862           | 332,706          |
| Effects of foreign exchange rate changes   | (71,277)           | (2,386)        | 309,611             | 10,334           |
| Net increase (decrease) in cash and cash equivalents   | 36,633,914         | 1,226,445      | (427,128)           | (14,256)         |
| Cash and cash equivalents at beginning of the period   | 173,118,425        | 5,795,729      | 92,282,352          | 3,080,185        |
| Cash and cash equivalents at end of the period   | \$209,752,339      | \$7,022,174    | \$91,855,224        | \$3,065,929      |
| <b>The components of cash and cash equivalents</b>   |                    |                |                     |                  |
| Cash and cash equivalents in balance sheet   | \$109,399,998      | \$3,662,538    | \$44,565,276        | \$1,487,493      |
| Due from the Central Bank and call loans to banks conformed to the definition of cash and cash equivalents in IAS7 | 81,135,446         | 2,716,285      | 41,797,351          | 1,395,105        |
| Securities purchased under agreements to resell conformed to the definition of cash and cash equivalents in IAS7   | 19,216,895         | 643,351        | 5,492,597           | 183,331          |
| Cash and cash equivalents at end of the period   | \$209,752,339      | \$7,022,174    | \$91,855,224        | \$3,065,929      |

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

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Cathay United Bank

Notes to financial statements

For the six-month periods ended 30 June 2014 and 2013

(Amounts in thousands except for share and per share data and unless otherwise stated)

I. Business

Cathay United Bank (the “Bank”), originally named United World Chinese Commercial Bank (“UWCCB”), was enfranchised by the government of the Republic of China (“ROC”) in January 1975. The Bank started its operations on 20 May 1975 and is engaged in the following operations: (1) all commercial banking operations authorized by the ROC Banking Act (“Banking Act”); (2) international banking business and related operations; (3) trust business; (4) off-shore banking business; and (5) other financial operations related to the promotion of investments by overseas Chinese. The Bank’s registered office and the main business location is at No.7, Songren Rd., Taipei City, Republic of China (R.O.C.).

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

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

As of 30 June 2014 and 2013, the Bank employed 8,117 and 7,492 employees, respectively.

Cathay Financial Holding Co., Ltd. is the Bank’s parent.

II. Date and procedures of authorization of financial statements for issue

The financial statements of the Bank for the six-month periods ended 30 June 2014 and 2013 were authorized for issue in accordance with the Board of Directors’ resolution on 27 August 2014.

III. Newly issued or revised standards and interpretations

1. International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee or Standing Interpretations Committee issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”) and applicable to annual periods beginning on or after 1 January 2015, but not yet adopted by the Bank at the date of issuance of the Bank financial statements are listed below.

(1) *Improvements to International Financial Reporting Standards (issued in 2010):*

*IFRS 1 “First-time Adoption of International Financial Reporting Standards”*

The annual improvements to International Financial Reporting Standards (“IFRS”) issued in 2010 made the following amendments to IFRS 1: If a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report, it needs to explain those changes and update the reconciliations between previous GAAP and IFRS in accordance with paragraph 23 of IFRS 1.

Furthermore, the amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. The amendment also expands the scope of ‘deemed cost’ for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulated activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. These amendments became effective for annual periods beginning on or after 1 January 2011.

*IFRS 3 “Business Combinations”*

Under the amendment, IFRS 3 (as revised in 2008) do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). Furthermore, the amendment limits the scope of the measurement choices for non-controlling interest. Only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity’s net assets, in the event of liquidation could be measured at either fair value or at the present ownership instruments’ proportionate share of the acquiree’s identifiable net assets. Other components of non-controlling interest are measured at their acquisition date fair value.

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The amendment also requires an entity in a business combination to account for the replacement of the acquiree's share-based payment transactions (when the acquirer is not obliged to do so) as new share-based payment awards in the post-combination financial statements.

Outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions: if vested - they are part of non-controlling interest; if unvested - they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense.

These amendments became effective for annual periods beginning on or after 1 July 2010.

### *IFRS 7 "Financial Instruments: Disclosures"*

The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendment became effective for annual periods beginning on or after 1 January 2011.

### *IAS 1 "Presentation of Financial Statements"*

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment became effective for annual periods beginning on or after 1 January 2011.

### *IAS 34 "Interim Financial Reporting"*

The amendment clarifies that if a user of an entity's interim financial report have access to the most recent annual financial report of that entity, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report. Furthermore the amendment adds disclosure requirements around disclosures of financial instruments and contingent liabilities/assets. The amendment is effective for annual periods beginning on or after 1 January 2011.

### *IFRIC 13 "Customer Loyalty Programmes"*

The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is effective for annual periods beginning on or after 1 January 2011.



- (2) *IFRS 1 “First-time Adoption of International Financial Reporting Standards” - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

IFRS 1 has been amended to allow first-time adopters to utilize the transitional provisions of IFRS 7 *Financial Instruments: Disclosures*. These provisions give relief from providing comparative information in the disclosures required by amendments to IFRS 1 in the first year of application. The amendment is effective for annual periods beginning on or after 1 July 2010.

- (3) *IFRS 1 “First-time Adoption of International Financial Reporting Standards” - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The amendment has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. The amendment also removes the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. The amended standard has these dates coinciding with the date of transition to IFRS. The amendment is effective for annual periods beginning on or after 1 July 2011.

- (4) *IFRS 7 “Financial Instruments: Disclosures” (Amendment)*

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when financial assets are derecognised in their entirety, but the entity has a continuing involvement in them, or financial assets are not derecognised in their entirety. The amendment is effective for annual periods beginning on or after 1 July 2011.

- (5) *IAS 12 “Income Taxes” - Deferred Taxes: Recovery of Underlying Assets*

The amendment to IAS 12 introduce a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. As a result of this amendment, SIC 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* has been withdrawn. The amendment is effective for annual periods beginning on or after 1 January 2012.

(6) *IFRS 10 “Consolidated Financial Statements”*

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements and SIC-12. The changes introduced by IFRS 10 primarily relate to the elimination of the perceived inconsistency between IAS 27 and SIC-12 by introducing a new integrated control model. That is, IFRS 10 primarily relates to whether to consolidate another entity, but does not change how an entity is consolidated. The standard is effective for annual periods beginning on or after 1 January 2013.

(7) *IFRS 11 “Joint Arrangements”*

IFRS 11 replaces IAS 31 and SIC-13. The changes introduced by IFRS 11 primarily relate to increase comparability within IFRS by removing the choice for jointly controlled entities to use proportionate consolidation, so that the structure of the arrangement is no longer the most important factor when determining the classification as a joint operation or a joint venture, which then determines the accounting. The standard is effective for annual periods beginning on or after 1 January 2013.

(8) *IFRS 12 “Disclosures of Interests in Other Entities”*

IFRS 12 primarily integrates and makes consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and present those requirements in a single IFRS. The standard is effective for annual periods beginning on or after 1 January 2013.

(9) *IFRS 13 “Fair Value Measurement”*

IFRS 13 primarily relates to defining fair value, setting out in a single IFRS a framework for measuring fair value and requiring disclosures about fair value measurements to reduce complexity and improve consistency in application when measuring fair value. However, IFRS 13 does not change existing requirements in other IFRS as to when the fair value measurement or related disclosure is required. The standard is effective for annual periods beginning on or after 1 January 2013.

(10) *IAS 1 “Presentation of Financial Statements” - Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that would be reclassified (or recycled) to profit or loss in the future would be presented separately from items that will never be reclassified. The amendment is effective for annual periods beginning on or after 1 July 2012.

(11) *IAS 19 “Employee Benefits” (Revised)*

The revision includes: (1) For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. Actuarial gains and losses are now recognized in Other Comprehensive Income. (2) Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). (3) New disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption. (4) Termination benefits will be recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, etc.. The revised standard is effective for annual periods beginning on or after 1 January 2013.

(12) *IFRS 1 “First-time Adoption of International Financial Reporting Standards” - Government Loans*

The IASB has added an exception to the retrospective application of IFRS 9 (or IAS 39) and IAS 20. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. However, entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. The amendment is effective for annual periods beginning on or after 1 January 2013.

(13) *IFRS 7 “Financial Instruments: Disclosures” - Disclosures - Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights of set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’. The amendment is effective for annual periods beginning on or after 1 January 2013.

(14) *IAS 32 “Financial Instruments: Presentation” - Offsetting Financial Assets and Financial Liabilities*

The amendment clarifies the meaning of “currently has a legally enforceable right to set-off” in IAS 32. The amendment is effective for annual periods beginning on or after 1 January 2014.

(15) *IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”*

This Interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognizes these costs as a non-current asset (“stripping activity asset”), only if certain criteria are met. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. The interpretation is effective for annual periods beginning on or after 1 January 2013.

(16) *Improvements to International Financial Reporting Standards (2009-2011 cycle):*

*IFRS 1 “First-time Adoption of International Financial Reporting Standards”*

The amendment clarifies that an entity that has stopped applying IFRS may choose to either: Re-apply IFRS 1, even if the entity applied IFRS 1 in a previous reporting period; or Apply IFRS retrospectively in accordance with IAS 8 (i.e., as if it had never stopped applying IFRS) in order to resume reporting under IFRS. The amendment is effective for annual periods beginning on or after 1 January 2013.

*IAS 1 “Presentation of Financial Statements”*

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. The opening statement of financial position (known as ‘the third balance sheet’) must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. However, unlike the voluntary comparative information, the related notes are not required to include comparatives as of the date of the third balance sheet. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 16 “Property, Plant and Equipment” (Amendment)

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 32 “Financial Instruments: Presentation” (Amendment)

The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 34 “Interim Financial Reporting” (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Besides, total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity’s previous annual financial statements for that reportable segment. The amendment is effective for annual periods beginning on or after 1 January 2013.

(17) IFRS 10 “Consolidated Financial Statements” (Amendment)

The Investment Entities amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendment is effective for annual periods beginning on or after 1 January 2014.

The abovementioned standards and interpretations issued by IASB and recognized by FSC and applicable to annual periods beginning on or after 1 January 2015. As the Group is still currently determining the potential impact of the standards and interpretations mentioned above.

2. Standards or Interpretations issued by the IASB but not yet recognized by the FSC are listed below.

(1) *IAS 36 “Impairment of Assets” (Amendment)*

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendment is effective for annual periods beginning on or after 1 January 2014.

(2) *IFRIC 21 “Levies”*

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after 1 January 2014.

(3) *IAS 39 “Financial Instruments: Recognition and Measurement” (Amendment)*

Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after 1 January 2014.

(4) *IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)*

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment is effective for annual periods beginning on or after 1 July 2014.

(5) *Improvements to International Financial Reporting Standards (2010-2012 cycle):*

*IFRS 2 “Share-based Payment”*

The annual improvements amend the definitions of ‘vesting condition’ and ‘market condition’ and adds definitions for ‘performance condition’ and ‘service condition’ (which were previously part of the definition of ‘vesting condition’). The amendment prospectively applies to share-based payment transactions for which the grant date is on or after 1 July 2014.

*IFRS 3 “Business Combinations”*

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; (3) amending the classification requirements of IFRS 9 *Financial Instruments* to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

*IFRS 8 “Operating Segments”*

The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments’ assets to the entity’s assets if the segment assets are reported regularly. The amendment is effective for annual periods beginning on or after 1 July 2014.

*IFRS 13 “Fair Value Measurement”*

The amendment to the Basis for Conclusions of IFRS 13 clarifies that when deleting paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement* as consequential amendments from IFRS 13 *Fair Value Measurement*, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

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### IAS 16 “Property, Plant and Equipment”

The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

### IAS 24 “Related Party Disclosures”

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendment is effective for annual periods beginning on or after 1 July 2014.

### IAS 38 “Intangible Assets”

The amendment clarifies that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

## (6) *Improvements to International Financial Reporting Standards (2011-2013 cycle):*

### IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

### IFRS 3 “Business Combinations”

This amendment clarifies that paragraph 2(a) of IFRS 3 *Business Combinations* excludes the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements* from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendment is effective for annual periods beginning on or after 1 July 2014.



IFRS 13 “Fair Value Measurement”

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 40 “Investment Property”

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 *Investment Property*, separate application of both standards independently of each other is required. The amendment is effective for annual periods beginning on or after 1 July 2014.

(7) *IFRS 14 “Regulatory Deferral Accounts”*

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

(8) *IFRS 11 “Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)*

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 “Business Combinations”, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendment also requires certain disclosure. The amendment is effective for annual periods beginning on or after 1 January 2016.

(9) *IAS 16 “Property, Plant and Equipment and IAS 38 “Intangible Assets” — Clarification of Acceptable Methods of Depreciation and Amortization*

The amendment clarified that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendment is effective for annual periods beginning on or after 1 January 2016.

(10) *IFRS 15 “Revenue from Contracts with Customers”*

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The Standard is effective for annual periods beginning on or after 1 January 2017.

(11) *IAS 16 “Property, Plant and Equipment and IAS 41 “Agriculture” — Agriculture: Bearer Plants*

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendment is effective for annual periods beginning on or after 1 January 2016.

(12) *IFRS 9 “Financial Instruments”*

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9 *Financial Instruments* (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

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Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that 'own credit risk' adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after 1 January 2018.

The abovementioned standards and interpretations issued by IASB have not yet recognized by FSC at the date of issuance of the Bank's financial statements, the local effective dates are to be determined by FSC. As the Bank is still currently determining the potential impact of the standards and interpretations .

### IV. Summary of significant accounting policies

#### 1. Statement of compliance

The financial statements of the Bank for the six-month periods ended 30 June 2014 and 2013 have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", "the Regulations Governing the Preparation of Financial Reports by Securities Firms" and IAS 34 "*Interim Financial Reporting*" as recognized by the FSC.

#### 2. Basis of preparation

The financial reports comprise the balance sheet, statements of comprehensive income, the statements of change in equity, the statements of cash flows and related notes.

According to regulations mentioned above, the profit or loss for the period and other comprehensive income presented in parent company only financial report shall be the same as the allocations of profit or loss for the period and other comprehensive income attribute to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial report shall be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis. Therefore, the Bank accounted for its investments in subsidiaries using equity method and made necessary adjustment.

The financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The financial statements are expressed in thousands of New Taiwan Dollars ("NT\$") unless otherwise stated.

The Bank classify their economic activities as operating, investing and financing activities in accordance with management's judgment. The statements of cash flows presented the changes in cash and cash equivalents during the reporting period from operating, investing and financing activities. The components of cash and cash equivalents and disclosed in Notes VI.

### 3. Investments of subsidiaries

Investments of subsidiaries is expressed as investments accounted for using equity method in the financial statements and measure based on accounting treatment of subsidiaries above. The relative accounting policies in the consolidated financial statements are as follows:

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Bank obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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If the Bank loses control of a subsidiary, it:

- (1) Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (2) Derecognizes the carrying amount of any non-controlling interest;
- (3) Recognizes the fair value of the consideration received;
- (4) Recognizes the fair value of any investment retained;
- (5) Recognizes any surplus or deficit in profit or loss; and
- (6) Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

| Investor | Subsidiary  | Business activity | Ownership (%) |            |           |          |
|----------|---|-------------------|---------------|------------|-----------|----------|
|          |   |                   | 2014.6.30     | 2013.12.31 | 2013.6.30 | 2013.1.1 |
| The Bank | Indovina Bank Limited (“Indovina Bank”)                       | Wholesale banking | 50%           | 50%        | 50%       | 50%      |
|          | Indovina Bank was incorporated in Vietnam on 29 October 1992. |                   |               |            |           |          |

| Investor | Subsidiary   | Business activity | Ownership (%) |            |           |          |
|----------|--|-------------------|---------------|------------|-----------|----------|
|          |  |                   | 2014.6.30     | 2013.12.31 | 2013.6.30 | 2013.1.1 |
| The Bank | Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”)                                  | Wholesale banking | 100%          | 100%       | -         | 70%      |
|          | SBC Bank was incorporated in Cambodia on 5 July 1993, and renamed as CUBC as of 14 January 2014. |                   |               |            |           |          |

The Bank acquired 70% of the voting shares of SBC Bank for US\$22,500 on 13 December 2012. As of June 2013, major shareholders have different opinions regarding the operation and management of SBC Bank, the Bank could not comply with the supervision procedure and accounting policy of subsidiaries and lost the power to participate in the operating policy decision making and the influence over SBC Bank. SBC Bank is not deemed consolidated entity in accordance with IAS 27 “*Consolidate and Separate Financial Statement*” and were classified as financial assets carried at cost in accordance with IAS 39 “*Financial Instruments: Recognition and Measurement*”.

The Bank acquired remaining 30% of the voting shares for US\$11,418 on 30 September 2013, SBC Bank subsequently became a wholly-owned subsidiary of the Bank, and renamed as Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”) on 14 January 2014.

CUBC Bank increased its capital by US\$43,000 was resolved by the Bank’s board of directors. The authorized capital amounted to US\$60,000 after recapitalization. The Bank had remitted US\$43,000 on 25 June 2014, which is presented as “Investments accounted for using equity method”.

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As of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013 and for the six-month periods ended 30 June 2014 and 2013, respectively, the consolidated financial statements excluded the following subsidiaries because their total assets and operating revenues had immaterial impact to the Bank.

| Investor | Subsidiary                                     | Business activity | Ownership (%) |            |           |          |
|----------|--|-------------------|---------------|------------|-----------|----------|
|          |  |                   | 2014.6.30     | 2013.12.31 | 2013.6.30 | 2013.1.1 |
| The Bank | Seaward Card Co., Ltd. (“Seaward Card”)        | Dispatched        | 100%          | 100%       | 100%      | 100%     |
|          | Seaward Card was incorporated on 9 April 1999. | work              |               |            |           |          |

#### 4. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Bank’s net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

5. Investments accounted for using the equity method

The Bank accounted for its investments in subsidiaries using equity method and made necessary adjustments in accordance with Article 21 of the Regulations. Therefore, the profit or loss for the period and other comprehensive income presented in parent company only financial reports shall be the same as the allocations of profit or loss for the period and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports shall be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis. Such adjustments were made after the Bank considered the different accounting treatments to account for its investments in subsidiaries in the consolidated financial statements under IAS 27 "Consolidated and Separate Financial Statements" and the different IFRSs adopted from different reporting equity's perspectives, and the Bank recorded such adjustments by crediting or debiting to investments accounted for under the equity method, share of profit or loss of subsidiaries, associates and joint ventures and share of other comprehensive income of subsidiaries, associates and joint ventures.

The Bank's investment in its associate is accounted for using the equity method. An associate is an entity over which the Bank has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Bank's share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the Bank's related interest in the associate.

When changes in the net assets of an associate occur and are not those recognized in profit or loss or other comprehensive income and do not affect the Bank's percentage of ownership interests in the associate, the Bank recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate on a pro rata basis.

When an associate issues new stock and the Bank's interest in the associate is reduced or increased as the Bank fails to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in additional paid-in capital and investments accounted for using the equity method. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Bank disposes the associate.

The financial statements of the associates are prepared for the same reporting period as the Bank. Where necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, the Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the ‘share of profit or loss of an associate’ in the statement of comprehensive income as required by IAS 36 *Impairment of Assets*. If using the investment’s value in use as the recoverable amount, the Bank determines the value in use based on the following estimates:

- (1) Future cash flows the Bank expects to derive from the investment in the associate, including cash flows from the operation of the associate and from the ultimate disposal of such investment, or
- (2) present value of the future cash flows from dividends expected to be received from the associate and from the disposal of the investment.

Because goodwill included as part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for goodwill impairment testing in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate, the Bank measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

## 6. Foreign currency transactions

The financial statements are presented in NT dollars, which is also the Bank’s functional currency.

Transactions in foreign currencies are initially recorded by the Bank entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.



All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- (1) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- (2) Foreign currency items within the scope of IAS 39 Financial Instruments: Recognition and Measurement are accounted for based on the accounting policy for financial instruments.
- (3) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

#### 7. Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

8. Cash and cash equivalents

Cash and cash equivalents in consolidated balance sheet comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Bank and its subsidiaries classified time deposit that are within twelve months' readily convertible to known amounts of cash and be subject to an insignificant risk of changes in value as cash and cash equivalents. The consolidated statements of cash flows consist of cash and cash equivalents in consolidated balance sheet, due from the Central Bank and call loans to the banks and securities purchased under agreements to resell that conformed to the definition of cash and cash equivalents in IAS 7.

9. Bills and bonds under repurchase or resell agreements

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

10. Financial assets and financial liabilities

The Bank classify its financial assets as either financial assets at fair value through profit or loss, held-to-maturity financial assets, investment in debt securities with no active market, financial assets carried at cost, available-for-sale financial assets, derivative financial assets for hedging and loans and receivables where appropriate. Financial liabilities are classified as either financial liabilities at fair value through profit or loss and financial liabilities carried at amortized cost. When financial assets or liabilities are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Bank account for regular way purchase or sales of financial assets on the trade date (i.e. the date that the Bank commit to purchase or sell the asset).

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

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

(2) Held-to-maturity financial assets

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

(3) Available-for-sale financial assets

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

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

(4) Loans and receivables

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

- ① Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading;
- ② Those that the entity upon initial recognition designates as at fair value through profit or loss;
- ③ Those that the entity upon initial recognition designates as available-for-sale; or
- ④ Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

(5) Other financial assets

A. Investments in debt securities with no active market

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

B. Financial assets carried at cost

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

(6) Financial liabilities

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

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

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

11. Derivative financial instruments

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

12. Derecognition of financial assets and liabilities

(1) Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial asset) is derecognized when:

- ① The rights to receive cash flows from the asset have expired
- ② The Bank have transferred their rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(2) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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

13. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

14. Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired when, and only when, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Objective evidence may include:

- (1) Significant financial difficulty of the issuer or obligor; or
- (2) A breach of contract, such as a default or delinquency in interest or principal payments; or
- (3) It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (4) The disappearance of an active market for that financial asset because of financial difficulties.

The Bank applies following methods to determine the amount of any impairment loss:

- (1) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

In the case of equity investments classified as available for sale, impairment losses are not reversed through profit or loss; increases in its fair value after impairment are recognized directly in other comprehensive income. If, in a subsequent period, the fair value of a debt

instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment losses was recognized in profit or loss, the impairment losses are reversed through, with the amount of the reversal recognized in profit or loss.

(2) Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on a financial asset carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the financial asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

(3) Loans and receivables

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. If there is objective evidence that an impairment loss on individual loans and receivables has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a loan and receivable that is not individually significant has been incurred, the Bank shall include those assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the carrying amount of loans and receivables and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows on loans and receivables is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the loan and receivable that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

In addition, in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", the Bank shall allocate sufficient loan loss provision and reserves against liability on guarantees. The minimum loan loss provision and guarantee reserve shall be the sum of 0.5% of the outstanding balance of Category One credit asset's claim (excluding assets that represent claims against an ROC government agency), 2% of the balance of Category Two credit assets, 10% of the balance of Category Three credit assets, 50% of the balance of Category Four credit assets, and the full balance of Category Five credit assets.

15. Impairment of non-financial assets

The Bank assess at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 "*Impairment of Assets*" may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.



A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

#### 16. Hedge accounting

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

- (1) Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
- (2) Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction;
- (3) Hedges of net investments in foreign operations.

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

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

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

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

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

Bank will discontinue the hedge accounting if any following situation occurs:

- (1) The hedge instrument expires or is sold, terminated or exercised.
- (2) The hedge no longer meets the criteria set out above.
- (3) The entity revokes the designation.

17. Financial guarantee contracts

Financial guarantee contracts issued by the Bank and its subsidiaries are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

18. Foreclosed properties

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

19. Lease

All the leasing contracts of the Bank follow the regulations of IAS17 and SIC4 and are categorized as operating lease. If the Bank are the lessors, the asset in the operating lease is categorized under “Investment property” account. If the Bank are the lessees, the asset then is recorded as leased asset in the balance sheet. The rent payable and receivable of operating lease are recorded by its rental duration using straight-line method. They are recorded as “Other general and administrative expenses” and “Other net noninterest income”.

20. Assets held for sale, net

Assets are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction that is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition.

Property and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

21. Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. When significant parts of property and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line method over the following estimated useful lives:

|                          |      |       |
|--------------------------|------|-------|
| Building                 | 5~60 | years |
| Furniture and fixtures   | 3~ 6 | years |
| Transportation equipment | 3~ 6 | years |
| Miscellaneous equipment  | 3~15 | years |

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

22. Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the fair value model in accordance with the requirements of IAS 40 Investment property for that model. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of comprehensive income in the period in which they arise. Other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

The fair value of investment properties is measured on the character, location and condition of specific property.

23. Intangible assets

Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as finite, excluded goodwill.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

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

| <u>Category</u>         | <u>Useful lives</u> | <u>Amortization method</u> |
|-------------------------|---------------------|----------------------------|
| Computer software       | 3-5 years           | Straight-line method       |
| Other intangible assets | 4 years             | Straight-line method       |

### 24. Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

#### Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the board of directors.

#### Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- (1) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- (2) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- (1) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- (2) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities 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. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

25. Employee benefits

Defined contribution plans

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

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

Defined benefit plans

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial gains and losses are recognized as income or expenses when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

Employee preferential interest rate deposits

The Bank offers its employees with preferential deposit, including providing finite amount preferential interest rate deposits to current employees and providing the preferential interest rate deposits to current employees and retired employees after their retirement. The difference between the interest rate of preferential deposits and the market rate is recognized as employee benefits.

The finite amount preferential deposits that the Bank paid to its current employees are calculated monthly on accrual basis. The difference between the interest rate of preferential deposit and the market rate is recorded as “Employee benefits expenses”. In accordance with the article 28 of the “Regulations Governing the Preparation of Financial Reports by Public Banks”, when the interest incurred from preferential interest rate deposits exceed the interest generated from market rate, it should be considered the actuarial amount according to defined benefit plan regulated on IAS 19 “*Employee Benefits*” since the employee’s retirement date.

26. Provisions

The provision are recognized when:

- (1) The Bank has a present obligation (legal or constructive) as a result of a past event;
- (2) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (3) A reliable estimate can be made of the amount of the obligation.

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

27. Interest income

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



28. Service fee

The Bank earn service fee from a diverse range of service it provide to its customers. Fee income can be divided into the following two categories:

- (1) Fee income on transactions conducted or from services provided over a period of time.
- (2) Fee income from providing transaction services.

The fair value of the award credits granted to the bank card holders is deferred and recognized as fee income when the award credits are redeemed or expire.

29. Operating segment information

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

- (1) Engaging in business activities from which it may earn revenues and incur expenses;
- (2) Whose operating results are regularly reviewed by the entity's chief operating decision marker to make decisions about resource to be allocated to the segment and assess its performance, and
- (3) For which discrete financial information is available.

30. Changes in accounting policy

The FSC revised the Regulations Governing the Preparation of Financial Reports by Public Bank on 9 January 2014, and Paragraph 16, Article 10 of the Regulations were effective from 1 January 2014. To improve the reliability and relevance of financial reporting, the Bank volunteered to change the subsequent measurements of investment properties from cost model to fair value model from 2014 to reflect the true value of the asset. Please refer to Note XII.10 for items and amounts of retrospective adjustments.

31. Basis for converting financial statements

The financial statements are stated in NT dollars. Translation of the 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers, using the noon buying rates of NT\$29.87, NT\$29.83, NT\$29.96 and NT\$29.05 to US\$1.00 on 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, respectively, as provided by the Federal Reserve Bank of New York. The translation amounts are unreviewed. Such currency translation should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

V. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

1. Judgement

In the process of applying the Bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

(1) Investment properties

Certain properties of the Bank comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. The property is classified as investment property in its entirety only if the portion that is owner-occupied is under 5% of the total property.

(2) Operating lease commitment—the Bank as the lessor

The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Impairment losses on loans and receivables

The Bank review its loans and receivables to assess whether an impairment loss should be recorded in profit or loss on a monthly basis. When the Bank determine whether to recognize impairment losses, they mainly decide if there is any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable change in debtor payment status, or sovereign or the local economic situation related to debt payment in appears. While analyzing expected cash flow, the estimates by the management are based on past losses experience on the assets of similar credit risk characteristics. The Bank and its subsidiaries periodically review methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss.

(2) Fair value of financial instruments

Where the fair value of financial instruments cannot be derived from an active market or a quoted price, it is determined using a valuation technique. Observable market data for similar financial instruments is utilized as inputs to measure fair value. If observable inputs are not available, prudent assumptions are used for estimating fair value. In applying valuation techniques, the Group adopts pricing models in accordance with its procedure for valuation. All models are adjusted to ensure that their results reflect actual data and market prices.

(3) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs that would be directly attributable to the disposal of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The Bank determines whether goodwill is impairment on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the CGU or groups of CGUs to which goodwill is allocated. Estimating the recoverable amount requires the Bank to make an estimate of the expected future cash flows from the CGU or groups of CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(4) Award credits and deferred income

The Bank recognizes the fair value of all considerations received or receivable as revenue at the time of sale, and estimates the cost and related liabilities resulting from the awards given. The consideration allocated to the award credits should be deferred and only recognized as revenue when award credits are redeemed and the Bank fulfils its obligations to supply awards. As points issued under the programme do not expire, such estimates are subject to significant uncertainty.

(5) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Bank establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Bank entity's domicile.

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(6) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

According to internal regulation of the Bank or hiring agreement, IAS 19 "*Employee Benefit*" applies to the excess interest of retiring employee preferential interest rate deposits once the employee is retired.

(7) Fair value of investment property

The fair value of investment property is derived from valuation techniques, including earning value method (such as discounted cash flow model) and market method, etc., and assumptions which are used in applying valuation techniques will have impacts on the fair value of investment property. Please refer Note VI.12 for more details.

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VI. Breakdown of Significant Accounts

1. Cash and cash equivalents

|                           | 2014.6.30            |                    | 2013.12.31          |                    |
|---------------------------|----------------------|--------------------|---------------------|--------------------|
|                           | NT\$                 | US\$               | NT\$                | US\$               |
| Cash on hand              | \$12,892,810         | \$431,631          | \$13,430,298        | \$450,228          |
| Checks for clearance      | 3,458,243            | 115,777            | 3,285,792           | 110,150            |
| Due from commercial banks | 93,048,945           | 3,115,130          | 50,059,450          | 1,678,158          |
| <b>Total</b>              | <b>\$109,399,998</b> | <b>\$3,662,538</b> | <b>\$66,775,540</b> | <b>\$2,238,536</b> |

|                           | 2013.6.30           |                    | 2013.1.1            |                    |
|---------------------------|---------------------|--------------------|---------------------|--------------------|
|                           | NT\$                | US\$               | NT\$                | US\$               |
| Cash on hand              | \$12,679,443        | \$423,213          | \$12,550,257        | \$432,023          |
| Checks for clearance      | 7,356,913           | 245,558            | 8,326,316           | 286,620            |
| Due from commercial banks | 24,528,920          | 818,722            | 12,619,541          | 434,407            |
| <b>Total</b>              | <b>\$44,565,276</b> | <b>\$1,487,493</b> | <b>\$33,496,114</b> | <b>\$1,153,050</b> |

The components of cash and cash equivalents in statement of cash flows are listed below.

|  | 2014.6.30            |                    | 2013.12.31           |                    |
|--|----------------------|--------------------|----------------------|--------------------|
|  | NT\$                 | US\$               | NT\$                 | US\$               |
| Cash and cash equivalents in balance sheet   | \$109,399,998        | \$3,662,538        | \$66,775,540         | \$2,238,536        |
| Due from the Central Bank and call loans to banks conformed to the definition of cash and cash equivalents in IAS7 | 81,135,446           | 2,716,285          | 98,697,122           | 3,308,653          |
| Securities purchased under agreements to resell conformed to the definition of cash and cash equivalents in IAS7   | 19,216,895           | 643,351            | 7,645,763            | 256,311            |
| <b>Cash and cash equivalents at end of the period in statement of cash flows</b>                                   | <b>\$209,752,339</b> | <b>\$7,022,174</b> | <b>\$173,118,425</b> | <b>\$5,803,500</b> |

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|  | 2013.6.30           |                    | 2013.1.1            |                    |
|--|---------------------|--------------------|---------------------|--------------------|
|  | NT\$                | US\$               | NT\$                | US\$               |
| Cash and cash equivalents in balance sheet   | \$44,565,276        | \$1,487,493        | \$33,496,114        | \$1,153,050        |
| Due from the Central Bank and call loans to banks conformed to the definition of cash and cash equivalents in IAS7 | 41,797,351          | 1,395,105          | 58,786,238          | 2,023,623          |
| Securities purchased under agreements to resell conformed to the definition of cash and cash equivalents in IAS7   | 5,492,597           | 183,331            | -                   | -                  |
| Cash and cash equivalents at end of the period in statement of cash flows  | <u>\$91,855,224</u> | <u>\$3,065,929</u> | <u>\$92,282,352</u> | <u>\$3,176,673</u> |

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

|   | 2014.6.30            |                    | 2013.12.31           |                    |
|---|----------------------|--------------------|----------------------|--------------------|
|   | NT\$                 | US\$               | NT\$                 | US\$               |
| Call loans to banks                                       | \$18,698,820         | \$626,006          | \$81,184,995         | \$2,721,589        |
| Due from the Central Bank - Statutory reserve on deposits | 43,499,312           | 1,456,288          | 41,782,725           | 1,400,695          |
| Due from the Central Bank - General deposits              | 62,436,626           | 2,090,279          | 17,512,127           | 587,064            |
| Total   | <u>\$124,634,758</u> | <u>\$4,172,573</u> | <u>\$140,479,847</u> | <u>\$4,709,348</u> |

|   | 2013.6.30           |                    | 2013.1.1            |                    |
|---|---------------------|--------------------|---------------------|--------------------|
|   | NT\$                | US\$               | NT\$                | US\$               |
| Call loans to banks                                       | \$7,341,363         | \$245,039          | \$22,220,978        | \$764,922          |
| Due from the Central Bank - Statutory reserve on deposits | 41,413,109          | 1,382,280          | 40,058,450          | 1,378,948          |
| Due from the Central Bank - General deposits              | 34,455,988          | 1,150,066          | 36,565,260          | 1,258,701          |
| Total   | <u>\$83,210,460</u> | <u>\$2,777,385</u> | <u>\$98,844,688</u> | <u>\$3,402,571</u> |

Statuary reserve on deposits and general deposits consists mainly of New Taiwan dollars and foreign currency deposit reserves.

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As provided by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT\$43,182,213 (US\$1,445,672), NT\$41,504,190 (US\$1,391,357), NT\$41,211,305 (US\$1,375,544) and NT\$39,842,844 (US\$1,371,526) as of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These non-interest bearing reserves may be withdrawn momentarily. As of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, the balances of foreign-currency deposit reserves were NT\$317,099 (US\$10,616), NT\$278,535 (US\$9,338), NT\$201,804 (US\$6,736) and NT\$215,606 (US\$7,422), respectively.

3. Financial assets at fair value through profit or loss

|                                  | 2014.6.30     |             | 2013.12.31    |             |
|----------------------------------|---------------|-------------|---------------|-------------|
|                                  | NT\$          | US\$        | NT\$          | US\$        |
| Financial assets for trading:    |               |             |               |             |
| Short-term bills                 | \$100,647,696 | \$3,369,524 | \$143,666,541 | \$4,816,176 |
| Bonds                            | 15,456,158    | 517,448     | 8,238,507     | 276,182     |
| Overseas financial instruments   | 423,176       | 14,167      | 574,202       | 19,249      |
| Derivative financial instruments | 13,615,253    | 455,817     | 10,517,961    | 352,597     |
| Total                            | \$130,142,283 | \$4,356,956 | \$162,997,211 | \$5,464,204 |

|                                  | 2013.6.30    |             | 2013.1.1     |             |
|----------------------------------|--------------|-------------|--------------|-------------|
|                                  | NT\$         | US\$        | NT\$         | US\$        |
| Financial assets for trading :   |              |             |              |             |
| Short-term bills                 | \$56,167,448 | \$1,874,748 | \$59,110,475 | \$2,034,784 |
| Mutual funds                     | 363,880      | 12,145      | 3,197,378    | 110,065     |
| Bonds                            | 10,831,489   | 361,532     | -            | -           |
| Overseas financial instruments   | 867,706      | 28,962      | 833,160      | 28,680      |
| Derivative financial instruments | 8,292,410    | 276,783     | 4,655,954    | 160,274     |
| Total                            | \$76,522,933 | \$2,554,170 | \$67,796,967 | \$2,333,803 |

(1) As of 30 June 2013, certain financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT\$419,800 (US\$14,012). Such repurchase agreements amounting to NT\$463,387 (US\$15,467) was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 30 June 2013 was settled at NT\$463,551 (US\$15,472) prior to 31 July 2013.

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

- (2) As of 30 June 2014, 31 December 2013, June 30 2013 and 1 January 2013, the amount (the derange of fair value for derivative contracts between initial recognition and subsequent measurement) for derivative financial instruments (include hedging) are disclosed as following (unit: thousands of US dollars):

|   | <u>2014.6.30</u> | <u>2013.12.31</u> | <u>2013.6.30</u> | <u>2013.1.1</u> |
|---|------------------|-------------------|------------------|-----------------|
| Forward foreign exchange and<br>currency swap contracts | \$57,313,623     | \$29,310,866      | \$25,895,195     | \$21,601,412    |
| Interest rate swap contracts                            | 26,022,287       | 17,012,021        | 13,151,564       | 9,443,064       |
| Cross-currency swap contracts                           | 4,220,758        | 1,866,877         | 1,279,711        | 872,607         |
| Options   | 9,051,055        | 7,771,967         | 10,047,766       | 5,654,976       |
| Futures   | -                | -                 | 7,677            | 500             |

- (3) Net gains arising from financial assets at fair value through profit or loss For the six-month periods ended 30 June 2014 and 2013 were NT\$4,567,854 (US\$152,924) and NT\$1,305,816 (US\$43,585), respectively.

#### 4. Derivative financial assets for hedging

The Bank’s management established related risk management policies. The accounting policies of hedge accounting are disclosed in Notes IV.

In order to hedge the fair value risk from future market interest rate fluctuations, the Bank entered into interest rate swap transactions, where the interest rate payable on fixed-interest-rate financial debentures issued has been swapped with a floating interest rate. The fair value of the above interest rate swap transactions on 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013 were NT\$637,445 (US\$21,341), NT\$837,179 (US\$28,065), NT\$1,017,819 (US\$33,973) and NT\$1,203,138 (US\$41,416) respectively. For the six-month periods ended 30 June 2014 and 2013, net gains on the hedging derivative financial instrument amounted to NT\$15,239 (US\$510) and net losses on the hedging derivative financial instrument amounted to NT\$18,274 (US\$610), respectively. For the six-month periods ended 30 June 2014 and 2013, net losses from the hedged risk of the hedged items amounted to NT\$191,449 (US\$6,409) and net gains from the hedged risk of the hedged items amounted to NT\$187,725 (US\$6,266), respectively.



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

5. Receivables, net

|  | 2014.6.30           |                    | 2013.12.31           |                    |
|--|---------------------|--------------------|----------------------|--------------------|
|  | NT\$                | US\$               | NT\$                 | US\$               |
| Notes receivable   | \$1,279             | \$43               | \$7,776              | \$261              |
| Accounts receivable  | 50,330,098          | 1,684,971          | 46,142,896           | 1,546,862          |
| Interest receivable  | 3,778,158           | 126,487            | 3,022,269            | 101,317            |
| Related party receivables for allocation<br>of linked-tax system | 502,245             | 16,814             | 256,312              | 8,592              |
| Foreign currency receivable                                      | 46,940              | 1,571              | 103,526              | 3,470              |
| Acceptances  | 1,240,164           | 41,519             | 1,378,174            | 46,201             |
| Factoring receivable   | 26,663,205          | 892,642            | 69,249,723           | 2,321,479          |
| Others   | 2,907,595           | 97,342             | 1,973,718            | 66,166             |
| Total  | 85,469,684          | 2,861,389          | 122,134,394          | 4,094,348          |
| Adjustment for discounts and premiums                            | (7,088)             | (237)              | (6,519)              | (219)              |
| Less: allowance for doubtful accounts                            | (2,007,127)         | (67,196)           | (2,082,904)          | (69,826)           |
| Net balance  | <u>\$83,455,469</u> | <u>\$2,793,956</u> | <u>\$120,044,971</u> | <u>\$4,024,303</u> |

|  | 2013.6.30           |                    | 2013.1.1            |                    |
|--|---------------------|--------------------|---------------------|--------------------|
|  | NT\$                | US\$               | NT\$                | US\$               |
| Notes receivable   | \$7,563             | \$252              | \$-                 | \$-                |
| Accounts receivable  | 40,024,353          | 1,335,926          | 36,700,072          | 1,263,342          |
| Interest receivable  | 3,449,947           | 115,152            | 2,922,819           | 100,613            |
| Related party receivables for allocation<br>of linked-tax system | 375,330             | 12,528             | 246,573             | 8,488              |
| Foreign currency receivable                                      | 863,558             | 28,824             | 88,657              | 3,052              |
| Acceptances  | 1,761,943           | 58,810             | 1,639,720           | 56,445             |
| Factoring receivable   | 30,033,053          | 1,002,438          | 9,151,418           | 315,023            |
| Others   | 9,869,396           | 329,419            | 1,991,152           | 68,542             |
| Total  | 86,385,143          | 2,883,349          | 52,740,411          | 1,815,505          |
| Adjustment for discounts and premiums                            | (6,123)             | (204)              | (5,603)             | (193)              |
| Less: allowance for doubtful accounts                            | (1,941,485)         | (64,803)           | (2,006,455)         | (69,069)           |
| Net balance  | <u>\$84,437,535</u> | <u>\$2,818,342</u> | <u>\$50,728,353</u> | <u>\$1,746,243</u> |

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(1) Information on bad and doubtful accounts is as follows:

|                                  | 2014.1.1-2014.6.30    |         |                       |          |             |          |
|----------------------------------|-----------------------|---------|-----------------------|----------|-------------|----------|
|                                  | Individually impaired |         | Collectively impaired |          | Total       |          |
|                                  | NT\$                  | US\$    | NT\$                  | US\$     | NT\$        | US\$     |
| Balance, beginning of the period | \$144,462             | \$4,836 | \$1,938,442           | \$64,896 | \$2,082,904 | \$69,732 |
| Reversal of doubtful accounts    | (182,926)             | (6,124) | -                     | -        | (182,926)   | (6,124)  |
| Write-offs                       | (169,405)             | (5,671) | -                     | -        | (169,405)   | (5,671)  |
| Debt counseling recoveries       | 65,223                | 2,184   | -                     | -        | 65,223      | 2,184    |
| Recoveries                       | 275,401               | 9,219   | -                     | -        | 275,401     | 9,219    |
| Reclassification                 | (5,529)               | (185)   | (59,694)              | (1,999)  | (65,223)    | (2,184)  |
| Effects of exchange rates change | -                     | -       | 1,153                 | 39       | 1,153       | 39       |
| Balance, end of the period       | \$127,226             | \$4,259 | \$1,879,901           | \$62,936 | \$2,007,127 | \$67,195 |

|                                  | 2013.1.1-2013.6.30    |         |                       |          |             |          |
|----------------------------------|-----------------------|---------|-----------------------|----------|-------------|----------|
|                                  | Individually impaired |         | Collectively impaired |          | Total       |          |
|                                  | NT\$                  | US\$    | NT\$                  | US\$     | NT\$        | US\$     |
| Balance, beginning of the period | \$116,138             | \$3,876 | \$1,890,317           | \$63,095 | \$2,006,455 | \$66,971 |
| Reversal of doubtful accounts    | (195,275)             | (6,518) | -                     | -        | (195,275)   | (6,518)  |
| Write-offs                       | (160,522)             | (5,358) | -                     | -        | (160,522)   | (5,358)  |
| Debt counseling recoveries       | 69,007                | 2,303   | -                     | -        | 69,007      | 2,303    |
| Recoveries                       | 288,888               | 9,643   | -                     | -        | 288,888     | 9,643    |
| Reclassification                 | 5,859                 | 196     | (74,866)              | (2,499)  | (69,007)    | (2,303)  |
| Effects of exchange rates change | -                     | -       | 1,939                 | 65       | 1,939       | 65       |
| Balance, end of the period       | \$124,095             | \$4,142 | \$1,817,390           | \$60,661 | \$1,941,485 | \$64,803 |

(2) Impairment assessment of receivables – the Bank

| Item                                     |                       | Receivables |           |             |           |
|--|-----------------------|-------------|-----------|-------------|-----------|
|  |                       | 2014.6.30   |           | 2013.12.31  |           |
|  |                       | NT\$        | US\$      | NT\$        | US\$      |
| With objective evidence of impairment    | Individual assessment | \$23,362    | \$782     | \$37,173    | \$1,246   |
|  | Collective assessment | 158,090     | 5,293     | 172,872     | 5,795     |
| Without objective evidence of impairment | Collective assessment | 85,288,232  | 2,855,314 | 121,924,349 | 4,087,307 |

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| Item                                     |                       | Receivables |           |            |           |
|--|-----------------------|-------------|-----------|------------|-----------|
|  |                       | 2013.6.30   |           | 2013.1.1   |           |
|  |                       | NT\$        | US\$      | NT\$       | US\$      |
| With objective evidence of impairment    | Individual assessment | \$39,764    | \$1,327   | \$37,241   | \$1,282   |
|  | Collective assessment | 151,262     | 5,049     | 140,445    | 4,835     |
| Without objective evidence of impairment | Collective assessment | 86,194,117  | 2,876,973 | 52,562,725 | 1,809,388 |

| Item                                     |                       | Allowance for doubtful account |        |            |        |
|--|-----------------------|--------------------------------|--------|------------|--------|
|  |                       | 2014.6.30                      |        | 2013.12.31 |        |
|  |                       | NT\$                           | US\$   | NT\$       | US\$   |
| With objective evidence of impairment    | Individual assessment | \$9,028                        | \$303  | \$15,853   | \$532  |
|  | Collective assessment | 118,198                        | 3,957  | 128,609    | 4,311  |
| Without objective evidence of impairment | Collective assessment | 1,879,901                      | 62,936 | 1,938,442  | 64,983 |

| Item                                     |                       | Allowance for doubtful account |        |           |        |
|--|-----------------------|--------------------------------|--------|-----------|--------|
|  |                       | 2013.6.30                      |        | 2013.1.1  |        |
|  |                       | NT\$                           | US\$   | NT\$      | US\$   |
| With objective evidence of impairment    | Individual assessment | \$10,786                       | \$360  | \$5,208   | \$179  |
|  | Collective assessment | 113,309                        | 3,782  | 110,930   | 3,819  |
| Without objective evidence of impairment | Collective assessment | 1,817,390                      | 60,661 | 1,890,317 | 65,071 |

Notes: receivables shall refer to amounts originated excluded allowance for doubtful accounts and discount or premium.

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6. Discounts and loans, net

|                                       | 2014.6.30              |                     | 2013.12.31             |                     |
|---------------------------------------|------------------------|---------------------|------------------------|---------------------|
|                                       | NT\$                   | US\$                | NT\$                   | US\$                |
| Outward documentary bills             | \$12,498,497           | \$418,430           | \$6,669,210            | \$223,574           |
| Overdrafts                            | 331,863                | 11,110              | 482,564                | 16,177              |
| Short-term loans                      | 337,528,326            | 11,299,910          | 282,430,605            | 9,468,005           |
| Medium-term loans                     | 312,471,049            | 10,461,033          | 320,174,428            | 10,733,303          |
| Long-term loans                       | 441,182,396            | 14,770,083          | 414,448,713            | 13,893,688          |
| Delinquent accounts                   | 1,253,130              | 41,953              | 2,921,516              | 97,939              |
| Total                                 | 1,105,265,261          | 37,002,519          | 1,027,127,036          | 34,432,686          |
| Adjustment for discounts and premium  | 926,723                | 31,025              | 982,481                | 32,936              |
| Less: allowance for doubtful accounts | (14,873,567)           | (497,943)           | (14,386,401)           | (482,279)           |
| Net balance                           | <u>\$1,091,318,417</u> | <u>\$36,535,601</u> | <u>\$1,013,723,116</u> | <u>\$33,983,343</u> |

|                                       | 2013.6.30            |                     | 2013.1.1             |                     |
|---------------------------------------|----------------------|---------------------|----------------------|---------------------|
|                                       | NT\$                 | US\$                | NT\$                 | US\$                |
| Outward documentary bills             | \$1,448,394          | \$48,344            | \$1,764,969          | \$60,756            |
| Overdrafts                            | 682,314              | 22,774              | 329,797              | 11,353              |
| Short-term loans                      | 227,095,541          | 7,579,958           | 214,675,144          | 7,389,850           |
| Medium-term loans                     | 337,055,176          | 11,250,173          | 345,771,268          | 11,902,626          |
| Long-term loans                       | 424,742,040          | 14,176,970          | 432,740,603          | 14,896,406          |
| Delinquent accounts                   | 3,372,953            | 112,582             | 3,174,072            | 109,262             |
| Total                                 | 994,396,418          | 33,190,801          | 998,455,853          | 34,370,253          |
| Adjustment for discounts and premium  | 1,051,057            | 35,082              | 1,097,491            | 37,780              |
| Less: allowance for doubtful accounts | (14,132,953)         | (471,727)           | (13,036,932)         | (448,776)           |
| Net balance                           | <u>\$981,314,522</u> | <u>\$32,754,156</u> | <u>\$986,516,412</u> | <u>\$33,959,257</u> |

(1) As of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013 the accounts without interest accrued were NT\$1,950,034 (US\$65,284), NT\$3,001,620 (US\$100,624), NT\$3,479,615 (US\$116,142) and NT\$3,802,624 (US\$130,899), respectively. The non-accrued interest on such accounts amounted to NT\$78,986 (US\$2,644) and NT\$101,050 (US\$3,373) for the six-month periods ended 30 June 2014 and 2013, respectively.

(2) Please refer to Note XII.4 for details on loans by industries and geographic regions.

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(3) Information on bad and doubtful accounts is as follows:

|                                  | 2014.1.1-2014.6.30    |                  |                       |                  |                     |                  |
|----------------------------------|-----------------------|------------------|-----------------------|------------------|---------------------|------------------|
|                                  | Individually impaired |                  | Collectively impaired |                  | Total               |                  |
|                                  | NT\$                  | US\$             | NT\$                  | US\$             | NT\$                | US\$             |
| Balance, beginning of the period | \$4,267,369           | \$142,865        | \$10,119,032          | \$338,769        | \$14,386,401        | \$481,634        |
| Provision of doubtful accounts   | 177,262               | 5,935            | -                     | -                | 177,262             | 5,935            |
| Write-offs                       | (851,321)             | (28,501)         | -                     | -                | (851,321)           | (28,501)         |
| Debt counseling recoveries       | 58,856                | 1,970            | -                     | -                | 58,856              | 1,970            |
| Recoveries                       | 1,041,872             | 34,880           | -                     | -                | 1,041,872           | 34,880           |
| Reclassification                 | 116,160               | 3,889            | (50,937)              | (1,705)          | 65,223              | 2,184            |
| Effects of exchange rates change | -                     | -                | (4,726)               | (159)            | (4,726)             | (159)            |
| Balance, end of the period       | <u>\$4,810,198</u>    | <u>\$161,038</u> | <u>\$10,063,369</u>   | <u>\$336,905</u> | <u>\$14,873,567</u> | <u>\$497,943</u> |

|                                  | 2013.1.1-2013.6.30    |                  |                       |                  |                     |                  |
|----------------------------------|-----------------------|------------------|-----------------------|------------------|---------------------|------------------|
|                                  | Individually impaired |                  | Collectively impaired |                  | Total               |                  |
|                                  | NT\$                  | US\$             | NT\$                  | US\$             | NT\$                | US\$             |
| Balance, beginning of the period | \$3,838,785           | \$128,130        | \$9,198,147           | \$307,014        | \$13,036,932        | \$435,144        |
| Provision of doubtful accounts   | 232,878               | 7,773            | -                     | -                | 232,878             | 7,773            |
| Write-offs                       | (44,023)              | (1,469)          | -                     | -                | (44,023)            | (1,469)          |
| Debt counseling recoveries       | 56,846                | 1,897            | -                     | -                | 56,846              | 1,897            |
| Recoveries                       | 736,076               | 24,569           | -                     | -                | 736,076             | 24,569           |
| Reclassification                 | (103,397)             | (3,451)          | 172,404               | 5,754            | 69,007              | 2,303            |
| Effects of exchange rates change | -                     | -                | 45,237                | 1,510            | 45,237              | 1,510            |
| Balance, end of the period       | <u>\$4,717,165</u>    | <u>\$157,449</u> | <u>\$9,415,788</u>    | <u>\$314,278</u> | <u>\$14,132,953</u> | <u>\$471,727</u> |

(4) Impairment assessment of discounts and loans—the Bank

| Item                                     |                       | Discounts and loans |            |               |            |
|--|-----------------------|---------------------|------------|---------------|------------|
|  |                       | 2014.6.30           |            | 2013.12.31    |            |
|  |                       | NT\$                | US\$       | NT\$          | US\$       |
| With objective evidence of impairment    | Individual assessment | \$17,636,679        | \$590,448  | \$19,557,154  | \$655,620  |
|  | Collective assessment | 6,092,927           | 203,981    | 5,920,274     | 198,467    |
| Without objective evidence of impairment | Collective assessment | 1,081,535,655       | 36,208,090 | 1,001,649,608 | 33,578,599 |

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| Item                                     |                       | Discounts and loans |            |              |            |
|--|-----------------------|---------------------|------------|--------------|------------|
|  |                       | 2013.6.30           |            | 2013.1.1     |            |
|  |                       | NT\$                | US\$       | NT\$         | US\$       |
| With objective evidence of impairment    | Individual assessment | \$24,012,807        | \$801,495  | \$24,407,642 | \$840,194  |
|  | Collective assessment | 5,698,390           | 190,200    | 2,346,283    | 80,767     |
| Without objective evidence of impairment | Collective assessment | 964,685,221         | 32,199,106 | 971,701,928  | 33,449,292 |

| Item                                     |                       | Allowance for doubtful account |           |             |           |
|--|-----------------------|--------------------------------|-----------|-------------|-----------|
|  |                       | 2014.6.30                      |           | 2013.12.31  |           |
|  |                       | NT\$                           | US\$      | NT\$        | US\$      |
| With objective evidence of impairment    | Individual assessment | \$3,719,225                    | \$124,514 | \$3,280,804 | \$109,983 |
|  | Collective assessment | 1,090,973                      | 36,524    | 986,565     | 33,073    |
| Without objective evidence of impairment | Collective assessment | 10,063,369                     | 336,905   | 10,119,032  | 339,223   |

| Item                                     |                       | Allowance for doubtful account |           |             |           |
|--|-----------------------|--------------------------------|-----------|-------------|-----------|
|  |                       | 2013.6.30                      |           | 2013.1.1    |           |
|  |                       | NT\$                           | US\$      | NT\$        | US\$      |
| With objective evidence of impairment    | Individual assessment | \$3,728,277                    | \$124,442 | \$3,413,547 | \$117,506 |
|  | Collective assessment | 988,888                        | 33,007    | 425,238     | 14,638    |
| Without objective evidence of impairment | Collective assessment | 9,415,788                      | 314,278   | 9,198,147   | 316,632   |

Note: discounts and loans shall refer to amounts originated excluded allowance for doubtful accounts and discount or premium.

7. Available-for-sale financial assets, net

|   | 2014.6.30    |             | 2013.12.31   |             |
|---|--------------|-------------|--------------|-------------|
|   | NT\$         | US\$        | NT\$         | US\$        |
| Stocks                                  | \$12,614,120 | \$422,301   | \$14,172,615 | \$475,113   |
| Mutual funds and beneficiary securities | 330,443      | 11,063      | 469,473      | 15,738      |
| Bonds                                   | 34,932,455   | 1,169,483   | 36,358,499   | 1,218,857   |
| Overseas financial instruments          | 16,637,987   | 557,013     | 16,045,978   | 537,914     |
| Net balance                             | \$64,515,005 | \$2,159,860 | \$67,046,565 | \$2,247,622 |

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|   | 2013.6.30    |             | 2013.1.1     |             |
|---|--------------|-------------|--------------|-------------|
|   | NT\$         | US\$        | NT\$         | US\$        |
| Stocks                                  | \$12,588,517 | \$420,178   | \$11,217,884 | \$386,158   |
| Mutual funds and beneficiary securities | 450,183      | 15,026      | 1,271,338    | 43,764      |
| Bonds                                   | 31,033,767   | 1,035,840   | 34,012,397   | 1,170,822   |
| Overseas financial instruments          | 14,069,227   | 469,600     | 16,684,788   | 574,347     |
| Net balance                             | \$58,141,694 | \$1,940,644 | \$63,186,407 | \$2,175,091 |

- (1) Impairment assessment of available-for-sale financial assets above, please refer to Notes XII.4(7).
- (2) As of 30 June 2014, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$18,387,940 (US\$615,599). Such repurchase agreements amounting to NT\$13,731,286 (US\$459,702) was posted to the “Securities sold under agreements to repurchase” account on balance sheets. Repurchase agreements entered prior to 30 June 2014 was settled at NT\$13,738,649 (US\$459,948) prior to 31 December 2014. In addition, the amount of NT\$5,382,159 (US\$180,186) was without settlement date.

As of 31 December 2013, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$14,414,200 (US\$483,212). Such repurchase agreements amounting to NT\$14,071,807 (US\$471,734) was posted to the “Securities sold under agreements to repurchase” account on balance sheets. Repurchase agreements entered prior to 31 December 2013 was settled at NT\$14,079,632 (US\$471,996) prior to 30 June 2014. In addition, the amount of NT\$1,411,144 (US\$47,306) was without settlement date.

As of 30 June 2013, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$9,670,100 (US\$322,767). Such repurchase agreements amounting to NT\$10,678,257 (US\$356,417) was posted to the “Securities sold under agreements to repurchase” account on balance sheets. Repurchase agreements entered prior to 30 June 2013 was settled at NT\$10,682,729 (US\$356,566) prior to 31 December 2013.

As of 1 January 2013, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$15,936,600 (US\$548,592). Such repurchase agreements amounting to NT\$17,116,932 (US\$589,223) was posted to the “Securities sold under agreements to repurchase” account on balance sheets. Repurchase agreements entered prior to 1 January 2013 was settled at NT\$17,125,290 (US\$589,511) prior to 30 June 2013.

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- (3) Available-for-sale financial assets of NT\$1,483,452 (US\$49,664), NT\$1,473,453 (US\$49,395), NT\$1,540,371 (US\$51,414) and NT\$1,603,158 (US\$55,186) as of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, respectively, were pledged to other parties as collateral for business reserves and guarantees.

8. Held-to-maturity financial assets, net

|                                | 2014.6.30    |             | 2013.12.31   |             |
|--------------------------------|--------------|-------------|--------------|-------------|
|                                | NT\$         | US\$        | NT\$         | US\$        |
| Bonds                          | \$1,545,728  | \$51,749    | \$951,287    | \$31,891    |
| Overseas financial instruments | 48,498,046   | 1,623,637   | 49,760,391   | 1,668,132   |
| Net balance                    | \$50,043,774 | \$1,675,386 | \$50,711,678 | \$1,700,023 |

|                                | 2013.6.30    |             | 2013.1.1     |           |
|--------------------------------|--------------|-------------|--------------|-----------|
|                                | NT\$         | US\$        | NT\$         | US\$      |
| Bonds                          | \$956,630    | \$31,930    | \$962,740    | \$33,141  |
| Overseas financial instruments | 47,838,516   | 1,596,746   | 19,580,130   | 674,015   |
| Net balance                    | \$48,795,146 | \$1,628,676 | \$20,542,870 | \$707,156 |

- (1) As of 30 June 2014, certain held-to maturity financial assets was sold under repurchase agreements with notional amounts of NT\$42,902,582 (US\$1,436,310). Such repurchase agreements amounting to NT\$39,562,378 (US\$1,324,485) was posted to the “Securities sold under agreements to repurchase” account on the balance sheets. Repurchase agreements entered prior to 30 June 2014 was settled at NT\$39,575,236 (US\$1,324,916) prior to 31 July 2014. In addition, the amount of NT\$596,880 (US\$19,983) was without settlement date.

As of 31 December 2013, certain held-to-maturity financial asses was sold under repurchase agreements with notional amounts of NT\$42,902,582 (US\$1,438,236). Such repurchase agreements amounting to NT\$40,159,258 (US\$1,346,271) was posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2013 was settled at NT\$39,411,066 (US\$1,321,189) prior to 31 January 2014.

As of 30 June 2013 certain held-to-maturity financial assets was sold under repurchase agreements with notional amounts of NT\$42,559,560 (US\$1,420,546). Such repurchase agreements amounting to NT\$40,760,003 (US\$1,360,481) was posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreements entered prior to 30 June 2013 was settled at NT\$40,772,113 (US\$1,360,885) prior to 31 July 2013.



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(2) Held-to-maturity financial assets of NT\$1,284,658 (US\$43,008), NT\$862,710 (US\$28,921), NT\$807,435 (US\$26,950) and NT\$610,570 (US\$21,018) as of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, respectively, were pledged to other parties as collateral of business reserves and guarantees.

9. Investments accounted for using equity method, net

|  | 2014.6.30      |           |                | 2013.12.31     |           |                |
|--|----------------|-----------|----------------|----------------|-----------|----------------|
|  | Carrying value |           | % of ownership | Carrying value |           | % of ownership |
|  | NT\$           | US\$      |                | NT\$           | US\$      |                |
| Investment in subsidiaries             |                |           |                |                |           |                |
| CUBC Bank                              | \$2,014,144    | \$67,430  | 100.00         | \$770,462      | \$25,829  | 100.00         |
| Indovina Bank                          | 3,372,940      | 112,921   | 50.00          | 3,438,990      | 115,286   | 50.00          |
| Seaward Card Co., Ltd.                 | 40,157         | 1,344     | 100.00         | 39,107         | 1,311     | 100.00         |
| Subtotal                               | 5,427,241      | 181,695   |                | 4,248,559      | 142,426   |                |
| Investment in associates               |                |           |                |                |           |                |
| Taiwan Real-estate Management Corp.    | 96,071         | 3,216     | 30.15          | 99,359         | 3,331     | 30.15          |
| Taiwan Finance Corp.                   | 1,471,839      | 49,275    | 24.57          | 1,487,419      | 49,863    | 24.57          |
| Vista Technology Venture Capital Corp. | -              | -         | -              | 789            | 26        | 4.76           |
| Subtotal                               | 1,567,910      | 52,491    |                | 1,587,567      | 53,220    |                |
| Total                                  | \$6,995,151    | \$234,186 |                | \$5,836,126    | \$195,646 |                |

|  | 2013.6.30      |           |                | 2013.1.1       |           |                |
|--|----------------|-----------|----------------|----------------|-----------|----------------|
|  | Carrying value |           | % of ownership | Carrying value |           | % of ownership |
|  | NT\$           | US\$      |                | NT\$           | US\$      |                |
| Investment in subsidiaries             |                |           |                |                |           |                |
| CUBC Bank                              | \$2,890,782    | \$96,488  | 50.00          | \$655,796      | \$22,575  | 70.00          |
| Indovina Bank                          | 38,272         | 1,278     | 100.00         | 2,817,950      | 97,003    | 50.00          |
| Seaward Card Co., Ltd.                 | -              | -         | -              | 39,752         | 1,368     | 100.00         |
| Subtotal                               | 2,929,054      | 97,766    |                | 3,513,498      | 120,946   |                |
| Investment in associates               |                |           |                |                |           |                |
| Taiwan Real-estate Management Corp.    | 95,145         | 3,176     | 30.15          | 105,357        | 3,627     | 30.15          |
| Taiwan Finance Corp.                   | 1,390,230      | 46,403    | 24.57          | 1,418,699      | 48,837    | 24.57          |
| Vista Technology Venture Capital Corp. | 886            | 29        | 4.76           | 1,419          | 49        | 4.76           |
| Subtotal                               | 1,486,261      | 49,608    |                | 1,525,475      | 52,513    |                |
| Total                                  | \$4,415,315    | \$147,374 |                | \$5,038,973    | \$173,459 |                |

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- (1) The shares of the associates that the Bank invested in are not publicly traded and the associates are not significantly restricted in term of ability to transfer funds to the investor in the form of cash dividends, repayment of loans or advances.
- (2) Vista Technology Venture Capital Corp. that the Bank invested reduced capital by NT\$10,692 (US\$358) and carried out the liquidation proceeding on 30 June 2014 after the resolution by the meeting of shareholders on 30 April 2014.
- (3) No investment in the associates was pledged.
- (4) The following table illustrates summarized financial information of the Bank's investment in the associates:

|                   | 2014.6.30    |             | 2013.12.31   |             |
|-------------------|--------------|-------------|--------------|-------------|
|                   | NT\$         | US\$        | NT\$         | US\$        |
| Total assets      | \$49,245,907 | \$1,648,674 | \$45,654,713 | \$1,530,497 |
| Total liabilities | (42,935,115) | (1,437,399) | (39,254,783) | (1,315,950) |

|                   | 2013.6.30    |             | 2013.1.1     |             |
|-------------------|--------------|-------------|--------------|-------------|
|                   | NT\$         | US\$        | NT\$         | US\$        |
| Total assets      | \$43,846,598 | \$1,463,505 | \$39,117,543 | \$1,346,559 |
| Total liabilities | (37,843,073) | (1,263,120) | (36,188,347) | (1,245,726) |

|            | 2014.1.1-2014.6.30 |          | 2013.1.1-2013.6.30 |       |
|------------|--------------------|----------|--------------------|-------|
|            | NT\$               | US\$     | NT\$               | US\$  |
| Revenue    | \$306,173          | \$10,250 | \$236,670          | 7,900 |
| Net income | 162,063            | 5,426    | 74,835             | 2,498 |

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

|                                | 2014.6.30     |              | 2013.12.31    |             |
|--------------------------------|---------------|--------------|---------------|-------------|
|                                | NT\$          | US\$         | NT\$          | US\$        |
| Preferred stocks               | \$549,730     | \$18,404     | \$549,730     | \$18,429    |
| Short-term bills               | 324,000,000   | 10,847,004   | 272,300,000   | 9,128,394   |
| Overseas financial instruments | 7,256,284     | 242,929      | 7,422,283     | 248,819     |
| Net balance                    | \$331,806,014 | \$11,108,337 | \$280,272,013 | \$9,395,642 |

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|                                | 2013.6.30     |              | 2013.1.1      |              |
|--------------------------------|---------------|--------------|---------------|--------------|
|                                | NT\$          | US\$         | NT\$          | US\$         |
| Preferred stocks               | \$549,730     | \$18,349     | \$549,730     | \$18,923     |
| Short-term bills               | 432,900,000   | 14,449,265   | 410,100,000   | 14,117,040   |
| Overseas financial instruments | 8,686,392     | 289,933      | 13,393,933    | 461,065      |
| Net balance                    | \$442,136,122 | \$14,757,547 | \$424,043,663 | \$14,597,028 |

- (1) Impairment assessment of investments in debt securities with no active market assets above, please refer to Note XII.4(7).
- (2) As of 30 June 2014, certain investments in debt securities with no active market assets was sold under repurchase agreement with notional amounts of NT\$10,136,910 (US\$339,368). Such repurchase agreements amounting to NT\$3,589,800 (US\$120,181) was posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreements entered prior to 30 June 2014 was settled at NT\$3,591,156 (US\$120,226) prior to 31 July 2014.

As of 31 December 2013, certain investments in debt securities with no active market assets was sold under repurchase agreement with notional amounts of NT\$10,739,833 (US\$360,035). Such repurchase agreements amounting to NT\$3,803,650 (US\$127,511) was posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2013 was settled at NT\$3,805,024 (US\$127,557) prior to 31 January 2014.

As of 30 June 2013, certain investments in debt securities with no active market assets was sold under repurchase agreement with notional amounts of NT\$9,425,363 (US\$314,598). Such repurchase agreements amounting to NT\$4,525,530 (US\$151,052) was posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreements entered prior to 30 June 2013 was settled at NT\$4,527,184 (US\$151,108) prior to 31 July 2013.

- (3) NT\$62,000,000 (US\$2,075,661), NT\$50,100,000 (US\$1,679,517), NT\$50,100,000 (US\$1,672,230) and NT\$50,100,000 (US\$1,724,613) of certificates of deposit as of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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11. Property and equipment, net

|                               | Land         |           | Buildings   |           | Office equipment |           | Transportation equipment |         | Leasehold improvements |       | Other equipment |           | Construction in progress and prepayment for equipment |          | Total        |             |  |
|-------------------------------|--------------|-----------|-------------|-----------|------------------|-----------|--------------------------|---------|------------------------|-------|-----------------|-----------|---|----------|--------------|-------------|--|
|                               | NT\$         | US\$      | NT\$        | US\$      | NT\$             | US\$      | NT\$                     | US\$    | NT\$                   | US\$  | NT\$            | US\$      | NT\$  | US\$     | NT\$         | US\$        |  |
|                               |              |           |             |           |                  |           |                          |         |                        |       |                 |           |   |          |              |             |  |
| Cost:                         |              |           |             |           |                  |           |                          |         |                        |       |                 |           |   |          |              |             |  |
| 2013.1.1                      | \$13,627,421 | \$454,854 | \$9,697,384 | \$323,678 | \$4,277,243      | \$142,765 | \$37,495                 | \$1,251 | \$4,611                | \$154 | \$6,091,810     | \$203,331 | \$139,929   | \$4,671  | \$33,875,893 | \$1,130,704 |  |
| Additions                     | -            | -         | -           | -         | 380,973          | 12,716    | -                        | -       | 435                    | 14    | 51,247          | 1,711     | 186,178   | 6,214    | 618,833      | 20,655      |  |
| Transfers                     | -            | -         | -           | -         | 56,066           | 1,871     | -                        | -       | -                      | -     | 72,253          | 2,412     | (134,846)   | (4,501)  | (6,527)      | (218)       |  |
| Disposals                     | -            | -         | -           | -         | (337,206)        | (11,255)  | (2,646)                  | (88)    | -                      | -     | (28,160)        | (940)     | -   | -        | (368,012)    | (12,283)    |  |
| Exchange differences          | -            | -         | -           | -         | 1,593            | 53        | 138                      | 5       | 156                    | 5     | 1,449           | 48        | 24  | 1        | 3,360        | 112         |  |
| 2013.6.30                     | \$13,627,421 | \$454,854 | \$9,697,384 | \$323,678 | \$4,378,669      | \$146,150 | \$34,987                 | \$1,168 | \$5,202                | \$173 | \$6,188,599     | \$206,562 | \$191,285   | \$6,385  | \$34,123,547 | \$1,138,970 |  |
| 2014.1.1                      | \$13,775,233 | \$461,173 | \$9,697,874 | \$324,669 | \$4,471,853      | \$149,711 | \$26,090                 | \$873   | \$5,412                | \$181 | \$6,266,521     | \$209,793 | \$400,098   | \$13,395 | \$34,643,081 | \$1,159,795 |  |
| Additions                     | -            | -         | -           | -         | 82,324           | 2,756     | 114                      | 4       | 100                    | 4     | 65,838          | 2,204     | 201,086   | 6,732    | 349,462      | 11,700      |  |
| Transfers                     | 57,438       | 1,923     | 5,708       | 191       | 20,750           | 695       | -                        | -       | -                      | -     | 104,125         | 3,486     | (139,687)   | (4,677)  | 48,334       | 1,618       |  |
| Disposals                     | (16,717)     | (560)     | (5,708)     | (191)     | (187,304)        | (6,270)   | (1,338)                  | (45)    | -                      | -     | (78,464)        | (2,627)   | -   | -        | (289,531)    | (9,693)     |  |
| Exchange differences          | -            | -         | -           | -         | (244)            | (8)       | (5)                      | -       | (6)                    | -     | (109)           | (4)       | (227)   | (8)      | (591)        | (20)        |  |
| 2014.6.30                     | \$13,815,954 | \$462,536 | \$9,697,874 | \$324,669 | \$4,387,379      | \$146,884 | \$24,861                 | \$832   | \$5,506                | \$185 | \$6,357,911     | \$212,852 | \$461,270   | \$15,442 | \$34,750,755 | \$1,163,400 |  |
| Depreciations and impairments |              |           |             |           |                  |           |                          |         |                        |       |                 |           |   |          |              |             |  |
| 2013.1.1                      | \$-          | \$-       | \$3,180,289 | \$106,151 | \$3,725,199      | \$124,339 | \$36,196                 | \$1,208 | \$3,398                | \$113 | \$5,034,158     | \$168,030 | \$-   | \$-      | \$11,979,240 | \$399,841   |  |
| Depreciation                  | -            | -         | 96,089      | 3,208     | 196,011          | 6,542     | 278                      | 9       | 508                    | 17    | 154,791         | 5,166     | -   | -        | 447,677      | 14,942      |  |
| Disposals                     | -            | -         | -           | -         | (337,201)        | (11,255)  | (2,646)                  | (88)    | -                      | -     | (26,856)        | (896)     | -   | -        | (366,703)    | (12,239)    |  |
| Net exchange difference       | -            | -         | -           | -         | 510              | 17        | 97                       | 3       | 114                    | 4     | 388             | 13        | -   | -        | 1,109        | 37          |  |
| 2013.6.30                     | \$-          | \$-       | \$3,276,378 | \$109,359 | \$3,584,519      | \$119,643 | \$33,925                 | \$1,132 | \$4,020                | \$134 | \$5,162,481     | \$172,313 | \$-   | \$-      | \$12,061,323 | \$402,581   |  |
| 2014.1.1                      | \$-          | \$-       | \$3,384,060 | \$113,293 | \$3,707,829      | \$124,132 | \$25,248                 | \$845   | \$4,523                | \$152 | \$5,280,780     | \$176,792 | \$-   | \$-      | \$12,402,440 | \$415,214   |  |
| Depreciation                  | -            | -         | 97,306      | 3,258     | 153,872          | 5,151     | 96                       | 3       | 286                    | 9     | 156,448         | 5,238     | -   | -        | 408,008      | 13,659      |  |
| Transfers                     | -            | -         | 4,007       | 134       | -                | -         | -                        | -       | -                      | -     | -               | -         | -   | -        | 4,007        | 134         |  |
| Disposals                     | -            | -         | (4,026)     | (135)     | (187,294)        | (6,270)   | (1,338)                  | (45)    | -                      | -     | (77,228)        | (2,586)   | -   | -        | (269,886)    | (9,036)     |  |
| Net exchange difference       | -            | -         | -           | -         | (78)             | (2)       | (5)                      | -       | (10)                   | -     | (9)             | -         | -   | -        | (102)        | (2)         |  |
| 2014.6.30                     | \$-          | \$-       | \$3,481,347 | \$116,550 | \$3,674,329      | \$123,011 | \$24,001                 | \$803   | \$4,799                | \$161 | \$5,359,991     | \$179,444 | \$-   | \$-      | \$12,544,467 | \$419,969   |  |
| Net carrying amounts:         |              |           |             |           |                  |           |                          |         |                        |       |                 |           |   |          |              |             |  |
| 2014.6.30                     | \$13,815,954 | \$462,536 | \$6,216,527 | \$208,119 | \$713,050        | \$23,873  | \$860                    | \$29    | \$707                  | \$24  | \$997,920       | \$33,408  | \$461,270   | \$15,442 | \$22,206,288 | \$743,431   |  |
| 2013.12.31                    | \$13,775,233 | \$461,173 | \$6,313,814 | \$211,376 | \$764,024        | \$25,579  | \$842                    | \$28    | \$889                  | \$29  | \$985,741       | \$33,001  | \$400,098   | \$13,395 | \$22,240,641 | \$745,580   |  |
| 2013.6.30                     | \$13,627,421 | \$454,854 | \$6,421,006 | \$214,319 | \$794,150        | \$26,507  | \$1,062                  | \$36    | \$1,182                | \$39  | \$1,026,118     | \$34,249  | \$191,285   | \$6,385  | \$22,062,224 | \$736,390   |  |
| 2013.1.1                      | \$13,627,421 | \$454,854 | \$6,517,095 | \$217,527 | \$552,044        | \$18,426  | \$1,299                  | \$43    | \$1,213                | \$41  | \$1,057,652     | \$35,301  | \$139,929   | \$4,671  | \$21,896,653 | \$753,757   |  |

Components of building that have different useful lives are main building structure, air conditioning units and elevators, which are depreciated over five years to sixty years.

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12. Investment Properties, net

|   | Land        |           | Buildings   |          | Total       |           |
|---|-------------|-----------|-------------|----------|-------------|-----------|
|   | NT\$        | US\$      | NT\$        | US\$     | NT\$        | US\$      |
| <u>Cost:</u>                                    |             |           |             |          |             |           |
| 2013.1.1  | \$3,465,861 | \$115,683 | \$1,015,688 | \$33,901 | \$4,481,549 | \$149,584 |
| Gains arising from changes<br>in the fair value | 41,257      | 1,377     | 10,073      | 336      | 51,330      | 1,713     |
| 2013.6.30                                       | \$3,507,118 | \$117,060 | \$1,025,761 | \$34,237 | \$4,532,879 | \$151,297 |
| 2014.1.1  | \$3,499,062 | \$117,143 | \$1,022,071 | \$34,217 | \$4,521,133 | \$151,360 |
| Transfers                                       | (40,722)    | (1,363)   | -           | -        | (40,722)    | (1,363)   |
| Gains arising from changes<br>in the fair value | 20,796      | 696       | (13,185)    | (441)    | 7,611       | 255       |
| Disposals                                       | (45,577)    | (1,526)   | (22,533)    | (754)    | (68,110)    | (2,280)   |
| 2014.6.30                                       | \$3,433,559 | \$114,950 | \$986,353   | \$33,022 | \$4,419,912 | \$147,972 |
| <u>Impairment:</u>                              |             |           |             |          |             |           |
| 2013.1.1  | \$(41,625)  | \$(1,389) | \$-         | \$-      | \$(41,625)  | \$(1,389) |
| 2013.6.30                                       | \$(41,625)  | \$(1,389) | \$-         | \$-      | \$(41,625)  | \$(1,389) |
| 2014.1.1  | \$(41,625)  | \$(1,394) | \$-         | \$-      | \$(41,625)  | \$(1,394) |
| Impairment                                      | (7,123)     | (238)     | -           | -        | (7,123)     | (238)     |
| 2014.6.30                                       | \$(48,748)  | \$(1,632) | \$-         | \$-      | \$(48,748)  | \$(1,632) |
| <u>Net carrying amount:</u>                     |             |           |             |          |             |           |
| 2014.6.30                                       | \$3,384,811 | \$113,318 | \$986,353   | \$33,022 | \$4,371,164 | \$146,340 |
| 2013.12.31                                      | \$3,457,437 | \$115,749 | \$1,022,071 | \$34,217 | \$4,479,508 | \$149,966 |
| 2013.6.30                                       | \$3,465,493 | \$115,671 | \$1,025,761 | \$34,237 | \$4,491,254 | \$149,908 |
| 2013.1.1  | \$3,424,236 | \$114,294 | \$1,015,688 | \$33,901 | \$4,439,924 | \$148,195 |

|   | 2014.1.1-2014.6.30 |         | 2013.1.1-2013.6.30 |         |
|---|--------------------|---------|--------------------|---------|
|   | NT\$               | US\$    | NT\$               | US\$    |
| Rental income from investment property  |                    |         |                    |         |
| Less:   |                    |         |                    |         |
| Direct operating expenses from<br>investment property generating rental<br>income     | (4,444)            | (149)   | (5,469)            | (183)   |
| Direct operating expenses from<br>investment property not generating<br>rental income | (1,223)            | (41)    | (862)              | (29)    |
| Total   | \$34,258           | \$1,147 | \$34,762           | \$1,160 |

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- (1) All the lease agreements of the Bank's lease business are operating leases. The content of the lease agreements is the same as general lease agreement.
- (2) No investment property was pledged.
- (3) The Bank appointed appraisers from Savills Valuation and Professional Services (Kempis Tai, Howard Chang, Sky Liu, Yi-Jun Chen) to evaluate the fair value of investment property based on the "Regulations on Real Estate Appraisal" on 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013.

The fair value has been determined by discounted cash flow method and the method of land development analysis.

A. Office building have market liquidity and their rent levels are more comparable with similar items from the sane neighborhood. The fair value has been determined by discounted cash flow method.

Net income is based on the current market practices, assuming an annual rent increase of between 0% to 1.5% to extrapolate the total income of the underlying property, excluding losses as a result of idle and other reasons and related operation costs.

According to the ROC Real Estate Appraisers Association Gazette No.5, the house tax has been determined based on the reference tables of current house values assessed for each city/county to estimate the total current house value assessed. House tax is calculated based on the tax rates provided by the House Tax Act.

Land value tax is based on the changes in the announced land values of the underlying property in the past few years, to further extrapolate the announced land value in the future.

The replacement allowance is based on 0.5% to 1.5% of consturction or building cost, according to the ROC Real Estate Appraisers Association Gazette No.5.

The main parameters are as follows:

|                  |                  |                   |                  |                 |
|------------------|------------------|-------------------|------------------|-----------------|
|                  | <u>2014.6.30</u> | <u>2013.12.31</u> | <u>2013.6.30</u> | <u>2013.1.1</u> |
| Discounted rates | 4.625%           | 4.625%            | 4.625%           | 4.625%          |

Pursuant to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the discount rate is determined based on an interest rate not lower than the floating interest rate on a 2-year time deposit of petty cash as posted by the Chunghwa Post Co., Ltd., plus the risk premium.

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B. The fair value has been determined by the method of land development analysis. Road space and scenic hillside land had fewer market transactions as their uses are restricted by law, which will not pose significant changes on the market in the near future.

|                               | 2014.6.30   | 2013.12.31  | 2013.6.30   | 2013.1.1    |
|-------------------------------|-------------|-------------|-------------|-------------|
| Rate of return                | 18%~20%     | 18%~20%     | 18%~20%     | 18%~20%     |
| Overall capital interest rate | 1.29%~2.53% | 1.29%~4.16% | 1.29%~4.16% | 1.29%~4.16% |

(4) Some of the roads and scenic land sites is difficult to develop and have no prospects of profits, for which the fair value cannot be reliably measured. The cost model is adopted in accordance with International Accounting Standards No. 16.

13. Intangible assets, net

|                               | Goodwill    |           | Computer software |          | Total       |           |
|-------------------------------|-------------|-----------|-------------------|----------|-------------|-----------|
|                               | NT\$        | US\$      | NT\$              | US\$     | NT\$        | US\$      |
| Cost:                         |             |           |                   |          |             |           |
| 2013.1.1                      | \$6,673,083 | \$222,733 | \$1,565,137       | \$52,241 | \$8,238,220 | \$274,974 |
| Additions-acquired separately | -           | -         | 26,664            | 890      | 26,664      | 890       |
| Disposals                     | -           | -         | (17,217)          | (575)    | (17,217)    | (575)     |
| Transfers                     | -           | -         | 23,144            | 773      | 23,144      | 773       |
| 2013.6.30                     | \$6,673,083 | \$222,733 | \$1,597,728       | \$53,329 | \$8,270,811 | \$276,062 |
| 2014.1.1                      | \$6,673,083 | \$223,404 | \$1,420,947       | \$47,571 | \$8,094,030 | \$270,975 |
| Additions-acquired separately | -           | -         | 33,782            | 1,131    | 33,782      | 1,131     |
| Disposals                     | -           | -         | (24,842)          | (832)    | (24,842)    | (832)     |
| Transfers                     | -           | -         | 46,888            | 1,570    | 46,888      | 1,570     |
| 2014.6.30                     | \$6,673,083 | \$223,404 | \$1,476,775       | \$49,440 | \$8,149,858 | \$272,844 |
| Amortization and impairment:  |             |           |                   |          |             |           |
| 2013.1.1                      | \$-         | \$-       | \$1,073,900       | \$35,844 | \$1,073,900 | \$35,844  |
| Amortization                  | -           | -         | 104,106           | 3,475    | 104,106     | 3,475     |
| Disposals                     | -           | -         | (17,217)          | (574)    | (17,217)    | (574)     |
| 2013.6.30                     | \$-         | \$-       | \$1,160,789       | \$38,745 | \$1,160,789 | \$38,745  |
| 2014.1.1                      | \$-         | \$-       | \$1,048,617       | \$35,106 | \$1,048,617 | \$35,106  |
| Amortization                  | -           | -         | 86,645            | 2,901    | 86,645      | 2,901     |
| Disposals                     | -           | -         | (24,842)          | (832)    | (24,842)    | (832)     |
| 2014.6.30                     | \$-         | \$-       | \$1,110,420       | \$37,175 | \$1,110,420 | \$37,175  |
| Net carrying amount:          |             |           |                   |          |             |           |
| 2014.6.30                     | \$6,673,083 | \$223,404 | \$366,355         | \$12,265 | \$7,039,438 | \$235,669 |
| 2013.12.31                    | \$6,673,083 | \$223,404 | \$372,330         | \$12,465 | \$7,045,413 | \$235,869 |
| 2013.6.30                     | \$6,673,083 | \$222,733 | \$436,939         | \$14,584 | \$7,110,022 | \$237,317 |
| 2013.1.1                      | \$6,673,083 | \$222,733 | \$491,237         | \$16,397 | \$7,164,320 | \$239,130 |

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Impairment testing of goodwill:

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

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

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

① Discount rates

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

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

Assumptions are based on published industry research.

(3) Sensitivity to changes in assumptions:

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

14. Other assets, net

|                           | 2014.6.30    |           | 2013.12.31  |           |
|---------------------------|--------------|-----------|-------------|-----------|
|                           | NT\$         | US\$      | NT\$        | US\$      |
| Prepayment                | \$609,999    | \$20,422  | \$418,324   | \$14,024  |
| Temporary payments        | 3,042,844    | 101,869   | 84,037      | 2,817     |
| Interbank settlement fund | 2,589,788    | 86,702    | 2,572,275   | 86,231    |
| Refundable deposits, net  | 4,263,603    | 142,739   | 3,463,886   | 116,121   |
| Operating deposits, net   | 536,115      | 17,948    | 452,270     | 15,162    |
| Others                    | 205,715      | 6,887     | 152,652     | 5,117     |
| Total                     | \$11,248,064 | \$376,567 | \$7,143,444 | \$239,472 |



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|                           | 2013.6.30          |                  | 2013.1.1           |                  |
|---------------------------|--------------------|------------------|--------------------|------------------|
|                           | NT\$               | US\$             | NT\$               | US\$             |
| Prepayment                | \$391,687          | \$13,074         | \$332,945          | \$11,461         |
| Temporary payments        | 97,753             | 3,263            | 198,030            | 6,817            |
| Interbank settlement fund | 2,563,504          | 85,564           | 2,552,473          | 87,865           |
| Refundable deposits, net  | 3,129,185          | 104,445          | 810,644            | 27,905           |
| Operating deposits, net   | 452,270            | 15,096           | 486,290            | 16,740           |
| Others                    | 150,934            | 5,038            | 161,987            | 5,576            |
| <b>Total</b>              | <b>\$6,785,333</b> | <b>\$226,480</b> | <b>\$4,542,369</b> | <b>\$156,364</b> |

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

|                         | 2014.6.30           |                    | 2013.12.31          |                    |
|-------------------------|---------------------|--------------------|---------------------|--------------------|
|                         | NT\$                | US\$               | NT\$                | US\$               |
| Due to commercial banks | \$9,089,949         | \$304,317          | \$4,653,955         | \$156,016          |
| Due to Post Co., Ltd.   | 19,778,727          | 662,160            | 19,703,976          | 660,542            |
| Overdrafts from banks   | 3,383,452           | 113,273            | 123,569             | 4,143              |
| Call loans from banks   | 29,589,405          | 990,606            | 26,148,612          | 876,587            |
| <b>Total</b>            | <b>\$61,841,533</b> | <b>\$2,070,356</b> | <b>\$50,630,112</b> | <b>\$1,697,288</b> |

|                         | 2013.6.30           |                    | 2013.1.1            |                    |
|-------------------------|---------------------|--------------------|---------------------|--------------------|
|                         | NT\$                | US\$               | NT\$                | US\$               |
| Due to commercial banks | \$4,184,359         | \$139,665          | \$3,410,493         | \$117,401          |
| Due to Post Co., Ltd.   | 19,836,594          | 662,103            | 19,919,402          | 685,694            |
| Overdrafts from banks   | 51,781              | 1,728              | 108,340             | 3,729              |
| Call loans from banks   | 16,399,679          | 547,386            | 28,452,868          | 979,445            |
| <b>Total</b>            | <b>\$40,472,413</b> | <b>\$1,350,882</b> | <b>\$51,891,103</b> | <b>\$1,786,269</b> |

16. Financial liabilities at fair value through profit or loss

|                                    | 2014.6.30           |                  | 2013.12.31          |                  |
|------------------------------------|---------------------|------------------|---------------------|------------------|
|                                    | NT\$                | US\$             | NT\$                | US\$             |
| Financial liabilities for trading: |                     |                  |                     |                  |
| Bonds                              | \$199,417           | \$6,676          | \$497,002           | \$16,661         |
| Derivative financial instruments   | 13,151,152          | 440,280          | 10,774,185          | 361,186          |
| <b>Total</b>                       | <b>\$13,350,569</b> | <b>\$446,956</b> | <b>\$11,271,187</b> | <b>\$377,847</b> |

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|                                    | 2013.6.30   |           | 2013.1.1    |           |
|------------------------------------|-------------|-----------|-------------|-----------|
|                                    | NT\$        | US\$      | NT\$        | US\$      |
| Financial liabilities for trading: |             |           |             |           |
| Derivative financial instruments   | \$7,178,537 | \$239,604 | \$4,967,738 | \$171,006 |

Net losses arising from financial liabilities at fair value through profit or loss For the six-month periods ended 30 June 2014 and 2013 were NT\$1,873,633 (US\$62,726) and NT\$81,594 (US\$2,723), respectively.

17. Payables

|                          | 2014.6.30    |           | 2013.12.31   |           |
|--------------------------|--------------|-----------|--------------|-----------|
|                          | NT\$         | US\$      | NT\$         | US\$      |
| Accounts payable         | \$3,638,656  | \$121,816 | \$3,497,080  | \$117,234 |
| Accrued interest payable | 2,454,390    | 82,169    | 2,375,050    | 79,619    |
| Accrued expenses         | 3,877,596    | 129,816   | 4,957,182    | 166,181   |
| Foreign currency payable | 55,138       | 1,846     | 134,504      | 4,509     |
| Acceptance               | 1,245,899    | 41,711    | 1,381,544    | 46,314    |
| Tax payable              | 177,917      | 5,956     | 153,679      | 5,152     |
| Receipts under custody   | 401,498      | 13,442    | 388,419      | 13,021    |
| Others                   | 2,953,670    | 98,884    | 1,908,352    | 63,974    |
| Total                    | \$14,804,764 | \$495,640 | \$14,795,810 | \$496,004 |

|                          | 2013.6.30    |           | 2013.1.1     |           |
|--------------------------|--------------|-----------|--------------|-----------|
|                          | NT\$         | US\$      | NT\$         | US\$      |
| Accounts payable         | \$7,452,967  | \$248,764 | \$8,408,434  | \$289,447 |
| Accrued interest payable | 2,454,146    | 81,913    | 2,358,886    | 81,201    |
| Accrued expenses         | 2,817,453    | 94,041    | 3,873,921    | 133,354   |
| Foreign currency payable | 883,016      | 29,473    | 68,653       | 2,363     |
| Acceptance               | 1,764,928    | 58,910    | 1,644,088    | 56,595    |
| Tax payable              | 152,122      | 5,078     | 144,915      | 4,989     |
| Receipts under custody   | 638,306      | 21,305    | 228,744      | 7,874     |
| Others                   | 9,185,537    | 306,593   | 4,497,708    | 154,826   |
| Total                    | \$25,348,475 | \$846,077 | \$21,225,349 | \$730,649 |

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18. Deposits and remittances

|                                    | 2014.6.30              |                     | 2013.12.31             |                     |
|------------------------------------|------------------------|---------------------|------------------------|---------------------|
|                                    | NT\$                   | US\$                | NT\$                   | US\$                |
| Check deposits                     | \$15,585,170           | \$521,767           | \$17,005,938           | \$570,095           |
| Demand deposits                    | 308,520,456            | 10,328,773          | 312,931,727            | 10,490,504          |
| Demand savings deposits            | 660,949,988            | 22,127,552          | 619,077,120            | 20,753,507          |
| Time deposits                      | 319,165,740            | 10,685,160          | 337,598,653            | 11,317,421          |
| Negotiable certificates of deposit | 5,687,400              | 190,405             | 6,271,400              | 210,238             |
| Time savings deposits              | 316,097,485            | 10,582,440          | 302,030,267            | 10,125,051          |
| Outward remittances                | 1,496,082              | 50,087              | 868,120                | 29,102              |
| Remittances payable                | 427,246                | 14,304              | 519,332                | 17,410              |
| <b>Total</b>                       | <b>\$1,627,929,567</b> | <b>\$54,500,488</b> | <b>\$1,596,302,557</b> | <b>\$53,513,328</b> |

|                                    | 2014.6.30              |                     | 2013.12.31             |                     |
|------------------------------------|------------------------|---------------------|------------------------|---------------------|
|                                    | NT\$                   | US\$                | NT\$                   | US\$                |
| Check deposits                     | \$14,126,168           | \$471,501           | \$17,113,270           | \$589,097           |
| Demand deposits                    | 267,026,705            | 8,912,774           | 261,927,386            | 9,016,433           |
| Demand savings deposits            | 587,531,012            | 19,610,514          | 578,540,948            | 19,915,351          |
| Time deposits                      | 380,003,597            | 12,683,698          | 370,970,891            | 12,770,082          |
| Negotiable certificates of deposit | 6,892,600              | 230,060             | 6,922,200              | 238,286             |
| Time savings deposits              | 293,437,316            | 9,794,303           | 283,700,913            | 9,765,952           |
| Outward remittances                | 1,239,917              | 41,386              | 395,743                | 13,623              |
| Remittances payable                | 337,773                | 11,274              | 1,164,015              | 40,070              |
| <b>Total</b>                       | <b>\$1,550,595,088</b> | <b>\$51,755,510</b> | <b>\$1,520,735,366</b> | <b>\$52,348,894</b> |

19. Financial debentures payable

|                                   | 2014.6.30           |                    | 2013.12.31          |                    |
|-----------------------------------|---------------------|--------------------|---------------------|--------------------|
|                                   | NT\$                | US\$               | NT\$                | US\$               |
| Subordinated financial debentures | \$66,693,573        | \$2,332,794        | \$51,705,031        | \$1,733,323        |
| Discount in financial debentures  | (12,225)            | (409)              | (16,366)            | (548)              |
| Valuation adjustment              | 533,443             | 17,859             | 728,548             | 24,423             |
| <b>Total</b>                      | <b>\$67,214,791</b> | <b>\$2,250,244</b> | <b>\$52,417,213</b> | <b>\$1,757,198</b> |

|                                   | 2013.6.30           |                    | 2013.1.1            |                    |
|-----------------------------------|---------------------|--------------------|---------------------|--------------------|
|                                   | NT\$                | US\$               | NT\$                | US\$               |
| Subordinated financial debentures | \$51,760,685        | \$1,727,660        | \$41,438,544        | \$1,426,456        |
| Discount in financial debentures  | (20,540)            | (686)              | (23,666)            | (815)              |
| Valuation adjustment              | 909,126             | 30,345             | 1,103,753           | 37,995             |
| <b>Total</b>                      | <b>\$52,649,271</b> | <b>\$1,757,319</b> | <b>\$42,518,631</b> | <b>\$1,463,636</b> |

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The Bank issued a 15-year US\$500 million subordinated bonds with a stated interest rate of 5.5% on 5 October 2005, and the interest is payable semiannually. The Bank can redeem the bonds after 10 years by exercising the call option. As discussed in Note VI.4, the Bank has adopted hedge accounting to account for its subordinated financial debentures. The Bank had bought back the bonds amount of US\$172,620 principal in May 2009.

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

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

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

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

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

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

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

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

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

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

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

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

The Bank issued a seven-year subordinated financial debentures totaling NT\$100,000 with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling NT\$9,900,000 with a stated interest rate of 1.70% in April 2013, and the interest is payable annually.

The Bank issued a seven-year subordinated financial debentures totaling NT\$3,000,000 with a stated interest rate of 1.70% in May 2014, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling NT\$12,000,000 with a stated interest rate of 1.85% in May 2014, and the interest is payable annually.

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

20. Other financial liabilities

|   | 2014.6.30           |                    | 2013.12.31          |                    |
|---|---------------------|--------------------|---------------------|--------------------|
|   | NT\$                | US\$               | NT\$                | US\$               |
| Borrowed funds  | \$-                 | \$-                | \$31,849            | \$1,068            |
| Principal received from the sale of structured products | 65,070,447          | 2,178,455          | 36,113,309          | 1,210,637          |
| Total   | <u>\$65,070,447</u> | <u>\$2,178,455</u> | <u>\$36,145,158</u> | <u>\$1,211,705</u> |

|   | 2013.6.30           |                  | 2013.1.1            |                  |
|---|---------------------|------------------|---------------------|------------------|
|   | NT\$                | US\$             | NT\$                | US\$             |
| Borrowed funds  | \$60,919            | \$2,034          | \$85,500            | \$2,943          |
| Principal received from the sale of structured products | 20,517,452          | 684,828          | 17,340,691          | 596,926          |
| Total   | <u>\$20,578,371</u> | <u>\$686,862</u> | <u>\$17,426,191</u> | <u>\$599,869</u> |

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21. Provisions

|                                     | 2014.6.30          |                 | 2013.12.31         |                 |
|-------------------------------------|--------------------|-----------------|--------------------|-----------------|
|                                     | NT\$               | US\$            | NT\$               | US\$            |
| Employee benefits provision –       |                    |                 |                    |                 |
| Defined benefits plan               | \$1,358,410        | \$45,478        | \$1,358,410        | \$45,538        |
| Employee benefits provision –       |                    |                 |                    |                 |
| Preferential interest rate deposits | 626,439            | 20,972          | 629,582            | 21,106          |
| Reserve for losses on guarantees    | 101,915            | 3,412           | 24,892             | 835             |
| Reserve for other operating         | 22,680             | 759             | 22,680             | 760             |
| <b>Total</b>                        | <b>\$2,109,444</b> | <b>\$70,621</b> | <b>\$2,035,564</b> | <b>\$68,239</b> |

|                                     | 2013.6.30          |                 | 2013.1.1           |                 |
|-------------------------------------|--------------------|-----------------|--------------------|-----------------|
|                                     | NT\$               | US\$            | NT\$               | US\$            |
| Employee benefits provision –       |                    |                 |                    |                 |
| Defined benefits plan               | \$1,354,200        | \$45,200        | \$1,354,200        | \$46,616        |
| Employee benefits provision –       |                    |                 |                    |                 |
| Preferential interest rate deposits | 630,079            | 21,031          | 630,292            | 21,697          |
| Reserve for losses on guarantees    | 24,892             | 831             | 24,892             | 857             |
| <b>Total</b>                        | <b>\$2,009,171</b> | <b>\$67,062</b> | <b>\$2,009,384</b> | <b>\$69,170</b> |

|                       | 2014.1.1           |                 | Addition-other   |                | Used              |                  | 2014.6.30          |                 |
|-----------------------|--------------------|-----------------|------------------|----------------|-------------------|------------------|--------------------|-----------------|
|                       | NT\$               | US\$            | NT\$             | US\$           | NT\$              | US\$             | NT\$               | US\$            |
| Defined benefits plan | \$1,358,410        | \$45,478        | \$-              | \$-            | \$-               | \$-              | \$1,358,410        | \$45,478        |
| Preferential interest |                    |                 |                  |                |                   |                  |                    |                 |
| rate deposits         | 629,582            | 21,077          | 44,429           | 1,488          | (47,572)          | (1,593)          | 626,439            | 20,972          |
| Reserve for losses on |                    |                 |                  |                |                   |                  |                    |                 |
| guarantees            | 24,892             | 833             | 77,023           | 2,579          | -                 | -                | 101,915            | 3,412           |
| Reserve for other     |                    |                 |                  |                |                   |                  |                    |                 |
| operating             | 22,680             | 759             | -                | -              | -                 | -                | 22,680             | 759             |
| <b>Total</b>          | <b>\$2,035,564</b> | <b>\$68,147</b> | <b>\$121,452</b> | <b>\$4,067</b> | <b>\$(47,572)</b> | <b>\$(1,593)</b> | <b>\$2,109,444</b> | <b>\$70,621</b> |

|                       | 2013.1.1           |                 | Addition-other  |                | Used              |                  | 2013.6.30          |                 |
|-----------------------|--------------------|-----------------|-----------------|----------------|-------------------|------------------|--------------------|-----------------|
|                       | NT\$               | US\$            | NT\$            | US\$           | NT\$              | US\$             | NT\$               | US\$            |
| Defined benefits plan | \$1,354,200        | \$45,200        | \$-             | \$-            | \$-               | \$-              | \$1,354,200        | \$45,200        |
| Preferential interest |                    |                 |                 |                |                   |                  |                    |                 |
| rate deposits         | 630,292            | 21,038          | 43,743          | 1,460          | (43,956)          | (1,467)          | 630,079            | 21,031          |
| Reserve for lessees   |                    |                 |                 |                |                   |                  |                    |                 |
| on guarantees         | 24,892             | 831             | -               | -              | -                 | -                | 24,892             | 831             |
| <b>Total</b>          | <b>\$2,009,384</b> | <b>\$67,069</b> | <b>\$43,743</b> | <b>\$1,460</b> | <b>\$(43,956)</b> | <b>\$(1,467)</b> | <b>\$2,009,171</b> | <b>\$67,062</b> |

22. Post-employment benefits

Defined contribution plan

The Bank adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Bank will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Bank has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plan for the six-month periods ended 30 June 2014 and 2013 were NT\$118,773 (US\$3,976) and NT\$96,361 (US\$3,216), respectively, and recorded as "Employee benefits expenses".

Defined benefits plan

The Bank adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Bank contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee.

Pension costs amounted to NT\$99,879 (US\$3,344) and NT\$88,243 (US\$2,945) were recognized for the six-month periods ended 30 June 2014 and 2013, and recorded as "Employee benefits expenses".

Employee preferential interest rate deposits plan

The Bank has the obligation to pay the preferential interest deposits for current employees and retired employees as according to the "Regulation for Employee Preferential Interest Rate Deposits of Cathay United Bank".

Expenses under preferential interest rate deposits plan amounted to NT\$152,730 (US\$5,113), and NT\$143,282 (US\$4,782) were recognized for the six-month periods ended 30 June 2014 and 2013, respectively, and recorded as "Employee benefits expenses".

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23. Other liabilities

|                             | 2014.6.30          |                  | 2013.12.31         |                  |
|-----------------------------|--------------------|------------------|--------------------|------------------|
|                             | NT\$               | US\$             | NT\$               | US\$             |
| Unearned receipts           | \$818,372          | \$27,398         | \$1,091,919        | \$36,605         |
| Temporary receipts          | 1,635,350          | 54,749           | 1,014,243          | 34,001           |
| Guarantee deposits received | 975,384            | 32,654           | 998,645            | 33,478           |
| Deferred income             | 1,386,859          | 46,430           | 1,233,330          | 41,345           |
| Others                      | 508,234            | 17,015           | 381,296            | 12,782           |
| <b>Total</b>                | <b>\$5,324,199</b> | <b>\$178,246</b> | <b>\$4,719,433</b> | <b>\$158,211</b> |

|                             | 2013.6.30          |                  | 2013.1.1           |                  |
|-----------------------------|--------------------|------------------|--------------------|------------------|
|                             | NT\$               | US\$             | NT\$               | US\$             |
| Unearned receipts           | \$948,667          | \$31,665         | \$695,017          | \$23,925         |
| Temporary receipts          | 881,881            | 29,435           | 844,181            | 29,060           |
| Guarantee deposits received | 987,747            | 32,969           | 1,199,725          | 41,298           |
| Deferred income             | 1,151,972          | 38,450           | 1,123,325          | 38,669           |
| Others                      | 250,160            | 8,350            | 251,759            | 8,666            |
| <b>Total</b>                | <b>\$4,220,427</b> | <b>\$140,869</b> | <b>\$4,114,007</b> | <b>\$141,618</b> |

24. Capital Stock

As of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, the Bank had issued and outstanding capital stock of NT\$67,112,762, NT\$64,668,494, NT\$52,277,026 and NT\$52,277,026 divided into 6,711,276, 6,466,849, 5,227,703 and 5,227,703 common shares, respectively, with par value NT\$10 per share.

The recapitalization of undistributed earnings of NT\$9,147,688 by issuing 914,769 shares was resolved by the Banks' board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 30 April 2013 and approved by the Financial Supervisory commission. The recapitalization record date was 9 August 2013. The authorized share capital amounted to NT\$61,424,714 after recapitalization.

The Bank increased its capital by NT\$3,243,780 and issued 324,378 shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 23 August 2013 and approved by the Financial Supervisory commission. The recapitalization record date was 26 September 2013. The authorized share capital amounted to NT\$64,668,494 after recapitalization.



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The recapitalization of undistributed earnings of NT\$2,444,268 by issuing 244,427 shares was resolved by the Banks' board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 21 April 2014 and approved by the Financial Supervisory commission. The recapitalization record date was 23 June 2014. The authorized share capital amounted to NT\$67,112,762 after recapitalization.

25. Capital reserves

|                                  | 2014.6.30           |                  | 2013.12.31          |                  |
|----------------------------------|---------------------|------------------|---------------------|------------------|
|                                  | NT\$                | US\$             | NT\$                | US\$             |
| Capital reserves from the merger |                     |                  |                     |                  |
| Bank                             | \$10,949,303        | \$366,565        | \$10,949,303        | \$367,057        |
| Additional paid-in capital       | 13,007,302          | 435,464          | 13,007,302          | 436,048          |
| Others                           | 12,807              | 429              | 14,893              | 499              |
| <b>Total</b>                     | <b>\$23,969,412</b> | <b>\$802,458</b> | <b>\$23,971,498</b> | <b>\$803,604</b> |

|                                  | 2013.6.30           |                  | 2013.1.1            |                  |
|----------------------------------|---------------------|------------------|---------------------|------------------|
|                                  | NT\$                | US\$             | NT\$                | US\$             |
| Capital reserves from the merger |                     |                  |                     |                  |
| Bank                             | \$10,949,303        | \$365,464        | \$10,949,303        | \$376,912        |
| Additional paid-in capital       | 4,249,096           | 141,826          | 4,249,096           | 146,268          |
| Others                           | 14,893              | 497              | 14,893              | 513              |
| <b>Total</b>                     | <b>\$15,213,292</b> | <b>\$507,787</b> | <b>\$15,213,292</b> | <b>\$523,693</b> |

26. Retained earnings

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

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

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- (2) The Company Act provides that the Bank must retain part of its annual net income as legal reserve, and cash dividend declaration, if any, should not exceed the limit of 15% of paid-in capital until such retention of legal reserve reaches the amount of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches 25% of the paid-in capital, the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed by issuing new shares or by cash.
- (3) The estimation of employee bonus and remuneration of directors For the six-month periods ended 30 June 2014 and 2013 were both NT\$750 (US\$25) based on the average actual payment over the past three years and recognized as operating expense. The actual amount of payments resolved at the next year shareholders' meeting might differ from the estimation mentioned above and the difference, if any, will be recognized as income or expense in the next year.
- (4) On 21 April 2014 and 30 April 2013, the following are appropriations and distribution approved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) and resolved as follows:

|                 | 2013      |         |                    |       |
|-----------------|-----------|---------|--------------------|-------|
|                 | Amount    |         | Dividend per share |       |
|                 | NT\$      | US\$    | NT\$               | US\$  |
| Legal reserves  | 3,491,812 | 116,900 | 0.69               | 0.023 |
| Cash dividends  | 5,703,293 | 190,937 | 1.13               | 0.038 |
| Stock dividends | 2,444,268 | 81,830  | 0.49               | 0.016 |

|                 | 2012        |           |                    |         |
|-----------------|-------------|-----------|--------------------|---------|
|                 | Amount      |           | Dividend per share |         |
|                 | NT\$        | US\$      | NT\$               | US\$    |
| Legal reserves  | \$3,920,437 | \$130,856 | \$0.75             | \$0.025 |
| Stock dividends | 9,147,688   | 305,330   | 1.75               | 0.059   |

Note: bonus to employees in the amount of NT\$1,500 (US\$50) were deducted from current expenses.

There is no significant difference between the actual employee bonuses and remuneration to directors and supervisors distributed from the earnings and the estimated amount in the financial statements for the year ended 31 December 2013 and 2012.

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

- (5) In 2014, the Bank changed its subsequent measurement of investment properties from cost model to fair value model. According to order No. Jin-Guan-Zheng-Fa-Zi-1030006415, on the first-time adoption of fair value model for investment properties subsequent measurement, the Banks shall set aside an equal amount of special reserve when the Bank transfers the fair value increment of investment properties to retained earnings. The amount NT\$1,619,109 was recognized as special reserve. The Bank recognized NT\$ 1,619,109 as special reserves.

As of 1 January 2014 and 2013, special reserves was set aside for the adoption of fair value model for investment properties subsequent measurement amounted to NT\$1,609,109. The Bank has reversed special reserve in the amount of NT\$9,166 to retained earnings during the six-month period ended 30 June 2014 as results of the use, disposal of or reclassification of related assets. As of 30 June 2014 and 2013, special reserve set aside for the adoption of fair value model for investment properties subsequent measurement amounted to NT\$1,609,943 and NT\$1,619,109, respectively.

27. Unrealized gains or losses on available-for-sale financial assets:

|   | 2014.1.1-2014.6.30 |          | 2013.1.1-2013.6.30 |          |
|---|--------------------|----------|--------------------|----------|
|   | NT\$               | US\$     | NT\$               | US\$     |
| Beginning balance   | \$1,292,205        | \$43,261 | \$2,005,850        | \$66,951 |
| Unrealized gains or losses on available-for-sale financial assets   | 972,278            | 32,550   | (502,837)          | (16,784) |
| Income tax of unrealized gains or losses on available-for-sale financial  | (5,362)            | (179)    | 37,716             | 1,259    |
| Share of unrealized gains or losses on available-for-sale financial assets of associates and joint ventures accounted for using the equity method | 20,086             | 673      | (9,570)            | (319)    |
| Ending balance  | \$2,279,207        | \$76,305 | \$1,531,159        | \$51,107 |

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28. Net interest income

|   | 2014.1.1-2014.6.30 |           | 2013.1.1-2013.6.30 |           |
|---|--------------------|-----------|--------------------|-----------|
|   | NT\$               | US\$      | NT\$               | US\$      |
| Interest income   |                    |           |                    |           |
| Discounts and loans                                     | \$12,264,000       | \$410,579 | \$11,056,136       | \$369,030 |
| Factoring receivable                                    | 812,399            | 27,198    | 426,689            | 14,242    |
| Due from banks and call loans to banks                  | 1,810,782          | 60,622    | 417,251            | 13,927    |
| Investment in securities                                | 2,849,342          | 95,391    | 3,157,127          | 105,378   |
| Credit cards  | 1,055,795          | 35,346    | 1,035,481          | 34,562    |
| Others  | 27,981             | 937       | 8,110              | 271       |
| Subtotal  | 18,820,299         | 630,073   | 16,100,794         | 537,410   |
| Interest expense  |                    |           |                    |           |
| Deposits  | 4,962,591          | 166,140   | 4,660,074          | 155,543   |
| Due to Central Bank and other banks                     | 173,302            | 5,802     | 142,370            | 4,752     |
| Funds borrowed from the Central Bank<br>and other banks | 208,941            | 6,995     | 118,751            | 3,964     |
| Financial debentures                                    | 698,695            | 23,391    | 610,085            | 20,363    |
| Others  | 695,958            | 23,299    | 290,034            | 9,681     |
| Subtotal  | 6,739,487          | 225,627   | 5,821,314          | 194,303   |
| Interest Income, net                                    | \$12,080,812       | \$404,446 | \$10,279,480       | \$343,107 |

29. Net fee income

|                         | 2014.1.1-2014.6.30 |           | 2013.1.1-2013.6.30 |           |
|-------------------------|--------------------|-----------|--------------------|-----------|
|                         | NT\$               | US\$      | NT\$               | US\$      |
| Fee income:             |                    |           |                    |           |
| Trust business income   | \$1,290,292        | \$43,197  | \$1,479,794        | \$49,392  |
| Marketing income        | 1,475,648          | 49,402    | 862,883            | 28,801    |
| Credit card fee income  | 1,916,952          | 64,177    | 1,631,700          | 54,463    |
| Loan fee income         | 728,935            | 24,404    | 647,308            | 21,606    |
| Other                   | 832,087            | 27,857    | 640,712            | 21,386    |
| Subtotal                | 6,243,914          | 209,037   | 5,262,397          | 175,648   |
| Fee expense:            |                    |           |                    |           |
| Credit card fee expense | 770,812            | 25,806    | 590,663            | 19,715    |
| Other                   | 342,523            | 11,467    | 296,507            | 9,897     |
| Subtotal                | 1,113,335          | 37,273    | 887,170            | 29,612    |
| Net fee income          | \$5,130,579        | \$171,764 | \$4,375,227        | \$146,036 |

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30. Gain on financial assets and liabilities at fair value through profit or loss

|                                  | 2014.1.1-2014.6.30 |                 | 2013.1.1-2013.6.30 |                 |
|----------------------------------|--------------------|-----------------|--------------------|-----------------|
|                                  | NT\$               | US\$            | NT\$               | US\$            |
| Short-term bills                 | \$417,541          | \$13,978        | \$270,315          | \$9,023         |
| Bonds                            | 86,954             | 2,911           | 32,835             | 1,096           |
| Beneficiary securities           | -                  | -               | 2,428              | 81              |
| Derivative financial instruments | 2,192,127          | 73,389          | 910,947            | 30,405          |
| Others                           | (2,401)            | (80)            | 7,697              | 257             |
| <b>Total</b>                     | <b>\$2,694,221</b> | <b>\$90,198</b> | <b>\$1,224,222</b> | <b>\$40,862</b> |

Realized gains on financial assets and liabilities at fair value through profit or loss include disposal gains NT\$1,949,731 (US\$65,274) and NT\$882,977 (US\$29,472), and the interest income NT\$400,286 (US\$13,401) and NT\$287,863 (US\$9,608) during the six-month periods ended 30 June 2014 and 2013, respectively.

31. Other net non-interest income

|   | 2014.1.1-2014.6.30 |                 | 2013.1.1-2013.6.30 |                 |
|---|--------------------|-----------------|--------------------|-----------------|
|   | NT\$               | US\$            | NT\$               | US\$            |
| The derivative item that in order to hedge risk | \$191,449          | \$6,409         | \$187,725          | \$6,266         |
| Rental income from operating assets             | 75,050             | 2,513           | 69,575             | 2,323           |
| Rental income from investment properties        | 39,925             | 1,337           | 41,093             | 1,372           |
| Others  | 297,953            | 9,975           | 186,413            | 6,221           |
| <b>Total</b>                                    | <b>\$604,377</b>   | <b>\$20,234</b> | <b>\$484,806</b>   | <b>\$16,182</b> |

32. Employee benefits expenses

|                         | 2014.1.1-2014.6.30 |                  | 2013.1.1-2013.6.30 |                  |
|-------------------------|--------------------|------------------|--------------------|------------------|
|                         | NT\$               | US\$             | NT\$               | US\$             |
| Salary                  | \$3,823,177        | \$127,994        | \$3,365,889        | \$112,346        |
| Insurance               | 351,515            | 11,768           | 531,276            | 17,733           |
| Post-employment benefit | 264,396            | 8,852            | 229,558            | 7,662            |
| Others                  | 289,509            | 9,692            | 262,475            | 8,761            |
| <b>Total</b>            | <b>\$4,728,597</b> | <b>\$158,306</b> | <b>\$4,389,198</b> | <b>\$146,502</b> |

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33. Depreciation and amortization expenses

|  | 2014.1.1-2014.6.30 |          | 2013.1.1-2013.6.30 |          |
|--|--------------------|----------|--------------------|----------|
|  | NT\$               | US\$     | NT\$               | US\$     |
| Depreciation expenses - property and equipment | \$408,008          | \$13,659 | \$447,677          | \$14,942 |
| Amortization expenses - intangibles assets     | 86,645             | 2,901    | 104,106            | 3,475    |
| Total  | \$494,653          | \$16,560 | \$551,783          | \$18,417 |

34. Other general and administrative expenses

|                             | 2014.1.1-2014.6.30 |           | 2013.1.1-2013.6.30 |           |
|-----------------------------|--------------------|-----------|--------------------|-----------|
|                             | NT\$               | US\$      | NT\$               | US\$      |
| Utilities expenses          | \$97,311           | \$3,258   | \$91,173           | \$3,043   |
| Postage expenses            | 212,232            | 7,105     | 173,653            | 5,796     |
| Rental expenses             | 648,825            | 21,722    | 595,294            | 19,870    |
| Business promotion expenses | 798,964            | 26,748    | 430,164            | 14,357    |
| Product promotion expenses  | 814,804            | 27,278    | 495,895            | 16,552    |
| Cash delivery expenses      | 147,361            | 4,934     | 141,864            | 4,735     |
| Insurance expenses          | 256,676            | 8,593     | 281,800            | 9,406     |
| Tax expenses                | 525,502            | 17,593    | 453,573            | 15,140    |
| Others                      | 1,415,034          | 47,373    | 1,314,967          | 43,891    |
| Total                       | \$4,916,709        | \$164,604 | \$3,978,383        | \$132,790 |

35. Components of other comprehensive income

2014.1.1-2014.6.30

|  | Arising during the period   |            | Income tax relating to components of other comprehensive income (expense) |          | Other comprehensive income, net of tax |            |
|--|---|------------|---|----------|--|------------|
|  | NT\$  | US\$       | NT\$  | US\$     | NT\$                                   | US\$       |
|  | Exchange differences resulting from translating the financial statements of a foreign operation | \$(86,646) | \$(2,901)   | \$14,730 | \$493                                  | \$(71,916) |
| Unrealized gains (losses) from available-for-sale financial assets   | 972,278   | 32,550     | (5,362)   | (179)    | 966,916                                | 32,371     |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | 20,086  | 673        | -   | -        | 20,086                                 | 673        |
| Total of other comprehensive income  | \$905,718   | \$30,322   | \$9,368   | \$314    | \$915,086                              | \$30,636   |

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2013.1.1-2013.6.30

|  | Arising during     |                  | Income tax relating to |                | Other comprehensive |                  |
|--|--------------------|------------------|------------------------|----------------|---------------------|------------------|
|  | the period         |                  | components of other    |                | income, net of tax  |                  |
|  | NT\$               | US\$             | NT\$                   | US\$           | NT\$                | US\$             |
| Exchange differences resulting from translating the financial statements of a foreign operation            | \$380,042          | \$12,685         | \$(64,606)             | \$(2,157)      | \$315,436           | \$10,528         |
| Unrealized gains (losses) from available-for-sale financial assets   | (502,837)          | (16,784)         | 37,716                 | 1,259          | (465,121)           | (15,525)         |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | (9,570)            | (319)            | -                      | -              | (9,570)             | (319)            |
| Total of other comprehensive income  | <u>\$(132,365)</u> | <u>\$(4,418)</u> | <u>\$(26,890)</u>      | <u>\$(898)</u> | <u>\$(159,255)</u>  | <u>\$(5,316)</u> |

36. Income tax

- (1) Under a directive issued by the Ministry of Finance (MOF), a financial holding company and its domestic subsidiaries that hold over 90% of shares issued by the financial holding company for 12 months within the same tax year may choose to adopt the consolidated income tax return for income tax filings. Additional tax and tax receivable resulting from the consolidated income tax return are recorded in the account of consolidated income tax return payable or receivable.
- (2) The major components of income tax expense are as follows:

Income tax (expense) income recognized in profit or loss

|   | 2014.1.1-2014.6.30   |                   | 2013.1.1-2013.6.30   |                   |
|---|----------------------|-------------------|----------------------|-------------------|
|   | NT\$                 | US\$              | NT\$                 | US\$              |
| Current income tax (expense) income:  |                      |                   |                      |                   |
| Current income tax charge   | \$(1,340,797)        | \$(44,888)        | \$(1,228,240)        | \$(40,996)        |
| Adjustments in respect of current income tax of prior periods   | 208,438              | 6,978             | 20,154               | 673               |
| Deferred tax (expense) income:  |                      |                   |                      |                   |
| Deferred tax (expense) income relating to origination and reversal of temporary differences   | (410,841)            | (13,754)          | 249,955              | 8,343             |
| Tax (expense) income recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods | -                    | -                 | (110,275)            | (3,681)           |
| Income tax expense  | <u>\$(1,543,200)</u> | <u>\$(51,664)</u> | <u>\$(1,068,406)</u> | <u>\$(35,661)</u> |

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Income tax relating to components of other comprehensive income

|   | 2014.1.1-2014.6.30 |       | 2013.1.1-2013.6.30 |           |
|---|--------------------|-------|--------------------|-----------|
|   | NT\$               | US\$  | NT\$               | US\$      |
| Deferred tax (expense) income:  |                    |       |                    |           |
| Exchange differences resulting from translating the financial statements of a foreign operation | \$14,730           | \$493 | \$(64,606)         | \$(2,157) |
| Unrealized gains (losses) from available-for-sale financial assets                              | (5,362)            | (179) | 37,716             | 1,259     |
| Income tax relating to components of other comprehensive income                                 | \$9,368            | \$314 | \$(26,890)         | \$(898)   |

(3) Imputation credit information

|                                      | 2014.6.30 |      | 2013.12.31 |      |
|--------------------------------------|-----------|------|------------|------|
|                                      | NT\$      | US\$ | NT\$       | US\$ |
| Balances of imputation credit amount | \$2,315   | \$78 | \$2,863    | \$96 |

|                                      | 2013.6.30 |         | 2013.1.1  |         |
|--------------------------------------|-----------|---------|-----------|---------|
|                                      | NT\$      | US\$    | NT\$      | US\$    |
| Balances of imputation credit amount | \$132,785 | \$4,432 | \$111,496 | \$3,838 |

The actual creditable ratio for 2013 and 2012 were 0.03% and 2.12%, respectively.

The Bank's earnings generated in the year ended 31 December 1997 and prior years have been fully appropriated. As of 30 June 2014, the undistributed earnings amounted to NT\$10,685,071 (US\$357,719) arose from earnings in 1998 and thereafter.

- (4) The Bank's income tax returns for the years prior to 2008 have been assessed by the tax authority.

37. Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.



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|                                   | 2014.4.1-2014.6.30 |           | 2013.4.1-2013.6.30 |           |
|-----------------------------------|--------------------|-----------|--------------------|-----------|
|                                   | NT\$               | US\$      | NT\$               | US\$      |
| Net income (in thousands dollars) | \$10,529,743       | \$352,519 | \$7,761,095        | \$259,049 |

|  | 2014.6.30 |          | 2013.6.30 |          |
|--|-----------|----------|-----------|----------|
|  | NT\$      | US\$     | NT\$      | US\$     |
| Retroactive adjustment weight-average shares outstanding | 6,711,276 |          | 6,386,898 |          |
| Earnings per share (in dollar)                           | \$1.57    | \$0.0526 | \$1.22    | \$0.0407 |

The recapitalization of undistributed earnings of NT\$9,147,688 by issuing 914,769 thousand shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 30 April 2013 and approved by the Financial Supervisory commission. The recapitalization record date was 9 August 2013. The authorized share capital amounted to NT\$61,424,714 after recapitalization.

The Bank increased its capital by NT\$3,243,780 and issued 324,378 thousand shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 23 August 2013 and approved by the Financial Supervisory commission. The recapitalization record date was 26 September 2013. The authorized share capital amounted to NT\$64,668,494 after recapitalization.

The recapitalization of undistributed earnings of NT\$2,444,268 by issuing 244,429 thousand shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 21 April 2014 and approved by the Financial Supervisory commission. The recapitalization record date was 23 June 2014. The authorized share capital amounted to NT\$67,112,762 after recapitalization.

The recapitalization mentioned above were adjusted retrospectively the calculation of the current and previous periods in accordance with IAS 33 *Earnings per Share*.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of financial statements.

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VII. Related parties transactions

Significant transactions with the related parties are summarized as follows:

1. Loans and Deposits

| Accounts/Related parties                     | 2014.6.30       |             |              | 2013.12.31      |             |              |
|--|-----------------|-------------|--------------|-----------------|-------------|--------------|
|  | Account balance |             |              | Account balance |             |              |
|  | NT\$            | US\$        | % of Account | NT\$            | US\$        | % of Account |
| <u>Loans</u>                                 |                 |             |              |                 |             |              |
| Associates                                   |                 |             |              |                 |             |              |
| Taiwan Real-estate Management Corp.          | \$55,000        | \$1,841     | -            | \$60,000        | \$2,011     | 0.01%        |
| Other related parties                        |                 |             |              |                 |             |              |
| Cathay Real Estate Development Co., Ltd.     | 60,000          | 2,009       | 0.01%        | 100,000         | 3,352       | 0.01%        |
| Cathay General Hospital                      | 99,000          | 3,314       | 0.01%        | 99,000          | 3,319       | 0.01%        |
| Tien-Tai energy Corp.                        | 117,050         | 3,919       | 0.01%        | 120,859         | 4,052       | 0.01%        |
| Others                                       | 1,248,518       | 41,798      | 0.11%        | 890,965         | 29,868      | 0.09%        |
| Subtotal                                     | 1,524,568       | 51,040      | 0.14%        | 1,210,824       | 40,591      | 0.12%        |
| Total  | \$1,579,568     | \$52,881    | 0.14%        | \$1,270,824     | \$42,602    | 0.13%        |
| <u>Deposits</u>                              |                 |             |              |                 |             |              |
| Parent company                               |                 |             |              |                 |             |              |
| Cathay Financial Holding Co., Ltd.           | \$1,307         | \$43        | -            | \$3,982         | \$134       | -            |
| Other related parties                        |                 |             |              |                 |             |              |
| Cathay Life Insurance Co., Ltd.              | 18,841,542      | 630,785     | 1.13%        | 25,559,790      | 856,849     | 1.60%        |
| Cathay Century Insurance Co., Ltd.           | 1,254,491       | 41,998      | 0.08%        | 1,470,311       | 49,290      | 0.09%        |
| Cathay Securities Corp.                      | 1,250,488       | 41,864      | 0.08%        | 1,300,263       | 43,589      | 0.08%        |
| Cathay Futures Corp.                         | 1,926,140       | 64,484      | 0.12%        | 1,920,210       | 64,372      | 0.12%        |
| Cathay Pacific Venture Capital Co., Ltd.     | 167,591         | 5,611       | 0.01%        | 44,992          | 1,508       | -            |
| Cathay Securities Investment Trust Co., Ltd. | 311,375         | 10,424      | 0.02%        | 344,818         | 11,559      | 0.02%        |
| Cathay Real Estate Development Co., Ltd.     | 232,757         | 7,792       | 0.01%        | 226,980         | 7,609       | 0.02%        |
| Cathay Dragon Fund etc.                      | 133,511         | 4,470       | 0.01%        | 1,970,907       | 66,071      | 0.12%        |
| Symphox Information Co., Ltd.                | 13,037          | 437         | -            | 142,617         | 4,781       | 0.01%        |
| Others                                       | 9,496,197       | 317,918     | 0.58%        | 8,558,652       | 286,914     | 0.54%        |
| Subtotal                                     | 33,627,129      | 1,125,783   | 2.04%        | 41,539,540      | 1,395,542   | 2.60%        |
| Total  | \$33,628,436    | \$1,125,826 | 2.04%        | \$41,543,522    | \$1,392,676 | 2.60%        |

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| Accounts/Related parties                 | 2013.6.30       |          |              | 2013.1.1        |          |              |
|--|-----------------|----------|--------------|-----------------|----------|--------------|
|  | Account balance |          |              | Account balance |          |              |
|  | NT\$            | US\$     | % of Account | NT\$            | US\$     | % of Account |
| <u>Loans</u>                             |                 |          |              |                 |          |              |
| Associates                               |                 |          |              |                 |          |              |
| Taiwan Real-estate Management Corp.      | \$60,000        | \$2,003  | -            | \$65,000        | \$2,238  | -            |
| Other related parties                    |                 |          |              |                 |          |              |
| Cathay Real Estate Development Co., Ltd. | 970,000         | 32,377   | 0.10%        | -               | -        | -            |
| Cathay General Hospital                  | 99,000          | 3,304    | 0.01%        | 103,000         | 3,546    | 0.01%        |
| Others                                   | 856,509         | 28,588   | 0.09%        | 385,830         | 13,281   | 0.04%        |
| Subtotal                                 | 1,925,509       | 64,269   | 0.20%        | 488,830         | 16,827   | 0.05%        |
| Total                                    | \$1,985,509     | \$66,272 | 0.20%        | \$553,830       | \$19,065 | 0.05%        |

Deposits

|  |              |             |       |              |             |       |
|--|--------------|-------------|-------|--------------|-------------|-------|
| Parent company                               |              |             |       |              |             |       |
| Cathay Financial Holding Co., Ltd.           | \$149,479    | \$4,989     | 0.01% | \$93,389     | \$3,215     | 0.01% |
| Other related parties                        |              |             |       |              |             |       |
| Cathay Life Insurance Co., Ltd.              | 53,630,146   | 1,790,058   | 3.46% | 73,919,996   | 2,544,578   | 4.86% |
| Cathay Century Insurance Co., Ltd.           | 1,447,888    | 48,327      | 0.09% | 1,285,715    | 44,259      | 0.08% |
| Cathay Securities Corp.                      | 1,224,490    | 40,871      | 0.08% | 1,797,618    | 61,880      | 0.12% |
| Cathay Futures Corp.                         | 2,238,094    | 74,703      | 0.14% | 1,978,796    | 68,117      | 0.13% |
| Cathay Pacific Venture Capital Co., Ltd.     | 88,743       | 2,962       | -     | 65,757       | 2,263       | -     |
| Cathay Securities Investment Trust Co., Ltd. | 755,049      | 25,202      | 0.05% | 1,745,795    | 60,096      | 0.11% |
| Cathay Real Estate Development Co., Ltd.     | 249,993      | 8,344       | 0.02% | 279,019      | 9,605       | 0.02% |
| Cathay Dragon Fund etc.                      | 1,814,812    | 60,574      | 0.12% | 3,258,081    | 112,154     | 0.21% |
| Symphox Information Co., Ltd.                | 102,752      | 3,430       | 0.01% | 167,730      | 5,774       | 0.01% |
| Others                                       | 8,784,991    | 293,224     | 0.57% | 7,234,987    | 249,053     | 0.49% |
| Subtotal                                     | 70,336,958   | 2,347,695   | 4.54% | 91,733,494   | 3,157,779   | 6.03% |
| Total  | \$70,486,437 | \$2,352,684 | 4.55% | \$91,826,883 | \$3,160,994 | 6.04% |

| Accounts/Related parties                 | Interest Income (Expense) |       |                    |       |
|--|---------------------------|-------|--------------------|-------|
|  | 2014.1.1-2014.6.30        |       | 2013.1.1-2013.6.30 |       |
|  | NT\$                      | US\$  | NT\$               | US\$  |
| <u>Loans</u>                             |                           |       |                    |       |
| Associates                               |                           |       |                    |       |
| Taiwan Real-estate Management Corp.      | \$562                     | \$19  | \$594              | \$20  |
| Other related parties                    |                           |       |                    |       |
| Cathay Real Estate Development Co., Ltd. | 821                       | 28    | 5,698              | 190   |
| Cathay General Hospital                  | 1,448                     | 48    | 1,477              | 49    |
| Tien-Tai energy Corp.                    | 2,069                     | 69    | -                  | -     |
| Others                                   | 11,818                    | 396   | 8,598              | 287   |
| Subtotal                                 | 16,156                    | 541   | 15,773             | 526   |
| Total                                    | \$16,718                  | \$560 | \$16,367           | \$546 |

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| Accounts/Related parties                     | Interest Income (Expense) |                  |                    |                   |
|--|---------------------------|------------------|--------------------|-------------------|
|  | 2014.1.1-2014.6.30        |                  | 2013.1.1-2013.6.30 |                   |
|  | NT\$                      | US\$             | NT\$               | US\$              |
| <u>Deposits</u>                              |                           |                  |                    |                   |
| Parent company                               |                           |                  |                    |                   |
| Cathay Financial Holding Co., Ltd.           | \$(23)                    | \$(1)            | \$(469)            | \$(16)            |
| Other related parties                        |                           |                  |                    |                   |
| Cathay Life Insurance Co., Ltd.              | (11,118)                  | (372)            | (279,271)          | (9,321)           |
| Cathay Century Insurance Co., Ltd.           | (5,173)                   | (173)            | (4,737)            | (158)             |
| Cathay Securities Corp.                      | (2,506)                   | (84)             | (4,853)            | (162)             |
| Cathay Futures Corp.                         | (11,815)                  | (396)            | (13,610)           | (454)             |
| Cathay Pacific Venture Capital Co., Ltd.     | (200)                     | (7)              | (440)              | (15)              |
| Cathay Securities Investment Trust Co., Ltd. | (1,789)                   | (60)             | (5,143)            | (172)             |
| Cathay Real Estate Development Co., Ltd.     | (65)                      | (2)              | (112)              | (4)               |
| Cathay Life Insurance (Vietnam) Co., Ltd.    | -                         | -                | (149)              | (5)               |
| Cathay Dragon Fund etc.                      | (4,852)                   | (162)            | (8,740)            | (292)             |
| Symphox Information Co., Ltd.                | (404)                     | (13)             | (831)              | (28)              |
| Others                                       | (50,722)                  | (1,698)          | (52,528)           | (1,753)           |
| Subtotal                                     | <u>(88,644)</u>           | <u>(2,967)</u>   | <u>(370,414)</u>   | <u>(12,364)</u>   |
| Total  | <u>\$(88,667)</u>         | <u>\$(2,968)</u> | <u>\$(370,883)</u> | <u>\$(12,380)</u> |

| Accounts / Related parties       | Account balance |          |             |          |
|----------------------------------|-----------------|----------|-------------|----------|
|                                  | 2014.6.30       |          | 2013.12.31  |          |
|                                  | NT\$            | US\$     | NT\$        | US\$     |
| <u>Call loans to banks</u>       |                 |          |             |          |
| Subsidiaries                     |                 |          |             |          |
| Indovina Bank                    | \$2,123,965     | \$71,107 | \$1,198,000 | \$40,161 |
| CUBC Bank                        | -               | -        | 179,700     | 6,024    |
| <u>Due from commercial banks</u> |                 |          |             |          |
| Subsidiaries                     |                 |          |             |          |
| Indovina Bank                    | 2,913           | 98       | 2,187       | 73       |
| CUBC Bank                        | -               | -        | 147         | 5        |
| <u>Call loans from banks</u>     |                 |          |             |          |
| Other related parties            |                 |          |             |          |
| CUBC Bank                        | 194,448         | 6,510    | -           | -        |
| <u>Due to commercial banks</u>   |                 |          |             |          |
| Subsidiaries                     |                 |          |             |          |
| Indovina Bank                    | 31,276          | 1,047    | 7,561       | 253      |
| CUBC Bank                        | 10,275          | 344      | 7,169       | 240      |
| Other related parties            |                 |          |             |          |
| Vietinbank                       | 6,727           | 225      | 1,601       | 54       |

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| Accounts / Related parties       | Account balance           |          |                    |           |
|----------------------------------|---------------------------|----------|--------------------|-----------|
|                                  | 2013.6.30                 |          | 2013.1.1           |           |
|                                  | NT\$                      | US\$     | NT\$               | US\$      |
| <u>Call loans to banks</u>       |                           |          |                    |           |
| Subsidiaries                     |                           |          |                    |           |
| Indovina Bank                    | \$451,800                 | \$15,080 | \$3,059,280        | \$105,311 |
| CUBC Bank                        | -                         | -        | -                  | -         |
| <u>Due from commercial banks</u> |                           |          |                    |           |
| Subsidiaries                     |                           |          |                    |           |
| Indovina Bank                    | 14,146                    | 472      | 1,218              | 42        |
| CUBC Bank                        | -                         | -        | -                  | -         |
| <u>Call loans from banks</u>     |                           |          |                    |           |
| Other related parties            |                           |          |                    |           |
| CUBC Bank                        | -                         | -        | -                  | -         |
| <u>Due to commercial banks</u>   |                           |          |                    |           |
| Subsidiaries                     |                           |          |                    |           |
| Indovina Bank                    | 7,340                     | 245      | 14,616             | 503       |
| CUBC Bank                        | -                         | -        | 1,255              | 43        |
| Other related parties            |                           |          |                    |           |
| Vietinbank                       | 33,521                    | 1,119    | 5,722              | 197       |
| Accounts / Related parties       | Interest Income (Expense) |          |                    |           |
|                                  | 2014.1.1-2014.6.30        |          | 2013.1.1-2013.6.30 |           |
|                                  | NT\$                      | US\$     | NT\$               | US\$      |
| <u>Call loans to banks</u>       |                           |          |                    |           |
| Subsidiaries                     |                           |          |                    |           |
| Indovina Bank                    | \$5,214                   | \$175    | \$6,359            | \$212     |
| CUBC Bank                        | 967                       | 32       | -                  | -         |
| <u>Due from commercial banks</u> |                           |          |                    |           |
| Subsidiaries                     |                           |          |                    |           |
| Indovina Bank                    | 35                        | 1        | 26                 | 1         |
| <u>Call loans from banks</u>     |                           |          |                    |           |
| Subsidiaries                     |                           |          |                    |           |
| Indovina Bank                    | -                         | -        | (137)              | (5)       |

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

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2. Guarantees and transactions of derivative financial instruments

Guarantees

| Related Parties                         | 2013.1.1-2013.6.30 |       | 2013.6.30       |       | 2013.1.1-2013.6.30 |      |
|---|--------------------|-------|-----------------|-------|--------------------|------|
|   | Maximum balance    |       | Account balance |       | Service fees       |      |
|   | NT\$               | US\$  | NT\$            | US\$  | NT\$               | US\$ |
| Cathay Hospitality Management Co., Ltd. | \$21,816           | \$728 | \$21,816        | \$728 | \$-                | -    |

Transactions of derivative financial instruments

| Related parties     | Category of agreements | Term of agreements  | Notional amount |             | Valuation gains (losses) |          |
|---------------------|------------------------|---------------------|-----------------|-------------|--------------------------|----------|
|                     |                        |                     | NT\$            | US\$        | NT\$                     | US\$     |
| <u>2014.6.30</u>    |                        |                     |                 |             |                          |          |
| Cathay Life         |                        |                     |                 |             |                          |          |
| Insurance Co., Ltd. | Currency swap          | 2012.7.19-2015.3.6  | \$30,812,450    | \$1,031,552 | \$394,318                | \$13,201 |
| Cathay Century      |                        |                     |                 |             |                          |          |
| Insurance Co., Ltd. | Currency swap          | 2013.7.12-2016.6.13 | 1,434,424       | 48,022      | 10,458                   | 350      |
|                     | Interest rate swap     | 2007.9.27-2015.4.30 | 400,000         | 13,391      | (10,125)                 | (339)    |

| Related parties        | Category of agreements | Term of agreements  | Notional amount |           | Valuation gains (losses) |          |
|------------------------|------------------------|---------------------|-----------------|-----------|--------------------------|----------|
|                        |                        |                     | NT\$            | US\$      | NT\$                     | US\$     |
| <u>2013.6.30</u>       |                        |                     |                 |           |                          |          |
| Cathay Life            |                        |                     |                 |           |                          |          |
| Insurance Co., Ltd.    | Currency swap          | 2012.4.27-2015.3.6  | \$26,656,200    | \$889,726 | \$1,137,772              | \$37,976 |
| Cathay Century         |                        |                     |                 |           |                          |          |
| Insurance Co., Ltd.    | Currency swap          | 2012.4.11-2014.3.12 | 2,176,170       | 72,636    | 54,352                   | 1,814    |
|                        | Interest rate swap     | 2007.9.27-2015.4.30 | 400,000         | 13,351    | (17,095)                 | (571)    |
| Cathy Dragon fund etc. | Currency swap          | -                   | -               | -         | 3,672                    | 123      |

3. Transactions under resale and repurchase agreements

| Accounts/Related parties                              | Account Balance |       |            |      |
|---|-----------------|-------|------------|------|
|   | 2014.6.30       |       | 2013.12.31 |      |
|   | NT\$            | US\$  | NT\$       | US\$ |
| <u>Securities sold under agreements to repurchase</u> |                 |       |            |      |
| Others  | \$28,014        | \$938 | \$-        | \$-  |

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| Accounts/Related parties                              | Account Balance |          |          |         |
|---|-----------------|----------|----------|---------|
|   | 2013.6.30       |          | 2013.1.1 |         |
|   | NT\$            | US\$     | NT\$     | US\$    |
| <u>Securities sold under agreements to repurchase</u> |                 |          |          |         |
| Other related parties                                 |                 |          |          |         |
| Cathay Securities Investment Trust Co., Ltd.          | \$425,000       | \$14,186 | \$20,000 | \$689   |
| Others  | -               | -        | 60,081   | 2,068   |
| Total   | \$425,000       | \$14,186 | \$80,081 | \$2,757 |

| Accounts/Related parties                              | Interest Expense   |       |                    |        |
|---|--------------------|-------|--------------------|--------|
|   | 2014.1.1-2014.6.30 |       | 2013.1.1-2013.6.30 |        |
|   | NT\$               | US\$  | NT\$               | US\$   |
| <u>Securities sold under agreements to repurchase</u> |                    |       |                    |        |
| Other related parties                                 |                    |       |                    |        |
| Cathay Securities Investment Trust Co., Ltd.          | \$-                | \$-   | \$(572)            | \$(19) |
| Others  | (50)               | (2)   | (121)              | (4)    |
| Total   | \$(50)             | \$(2) | \$(693)            | \$(23) |

4. Lease

| Accounts/Related parties                                | 2014.1.1-2014.6.30 |         | 2013.1.1-2013.6.30 |       | Payment term |
|---|--------------------|---------|--------------------|-------|--------------|
|   | NT\$               | US\$    | NT\$               | US\$  |              |
| <u>Rental income</u>                                    |                    |         |                    |       |              |
| Other related parties                                   |                    |         |                    |       |              |
| Cathay Life Insurance Co., Ltd.                         | \$29,895           | \$1,001 | \$27,198           | \$908 | Monthly      |
| Cathay Century Insurance Co., Ltd.                      | 4,509              | 151     | 4,196              | 140   | Monthly      |
| Cathay Securities Corp.                                 | 4,191              | 140     | 4,181              | 140   | Monthly      |
| Culture and Charity Foundation of<br>Cathay United Bank | 2,316              | 78      | 2,476              | 83    | Monthly      |
| <u>Rental expense</u>                                   |                    |         |                    |       |              |
| Other related parties                                   |                    |         |                    |       |              |
| Cathay Life Insurance Co., Ltd.                         | 199,553            | 6,681   | 188,193            | 6,281 | Monthly      |
| Cathay Real Estate Development<br>Co., Ltd.             | 26,203             | 877     | 33,020             | 1,102 | Monthly      |

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| Accounts/Related parties                          | 2014.6.30          |          | 2013.12.31         |          |
|---|--------------------|----------|--------------------|----------|
|   | NT\$               | US\$     | NT\$               | US\$     |
| <u>Refundable deposits</u>                        |                    |          |                    |          |
| Other related parties                             |                    |          |                    |          |
| Cathay Life Insurance Co., Ltd.                   | \$93,526           | \$3,131  | \$95,045           | \$3,186  |
| Cathay Real Estate Development Co., Ltd.          | 13,932             | 466      | 13,932             | 467      |
| Accounts/Related parties                          | 2013.6.30          |          | 2013.1.1           |          |
|   | NT\$               | US\$     | NT\$               | US\$     |
| <u>Refundable deposits</u>                        |                    |          |                    |          |
| Other related parties                             |                    |          |                    |          |
| Cathay Life Insurance Co., Ltd.                   | \$89,267           | \$2,980  | \$85,466           | \$2,942  |
| Cathay Real Estate Development Co., Ltd.          | 13,932             | 465      | 13,932             | 480      |
| Accounts/Related parties                          | 2014.6.30          |          | 2013.12.31         |          |
|   | NT\$               | US\$     | NT\$               | US\$     |
| <u>Guarantee deposit received</u>                 |                    |          |                    |          |
| Other related parties                             |                    |          |                    |          |
| Cathay Life Insurance Co., Ltd.                   | \$15,112           | \$506    | \$15,172           | \$509    |
| Cathay Securities Corp.                           | 2,808              | 94       | 2,536              | 85       |
| Cathay Century Insurance Co., Ltd.                | 2,383              | 80       | 2,221              | 74       |
| Accounts/Related parties                          | 2013.6.30          |          | 2013.1.1           |          |
|   | NT\$               | US\$     | NT\$               | US\$     |
| <u>Guarantee deposit received</u>                 |                    |          |                    |          |
| Other related parties                             |                    |          |                    |          |
| Cathay Life Insurance Co., Ltd.                   | \$14,790           | \$494    | \$14,790           | \$509    |
| Cathay Securities Corp.                           | 2,536              | 85       | 2,536              | 87       |
| Cathay Century Insurance Co., Ltd.                | 2,085              | 70       | 2,085              | 72       |
| Accounts/Related parties                          | 2014.1.1-2014.6.30 |          | 2013.1.1-2013.6.30 |          |
|   | NT\$               | US\$     | NT\$               | US\$     |
| <u>5. Commissions and handling fees income</u>    |                    |          |                    |          |
| Other related parties                             |                    |          |                    |          |
| Cathay Life Insurance Co., Ltd.                   | \$1,734,229        | \$58,059 | \$1,079,052        | \$36,016 |
| Cathay Century Insurance Co., Ltd.                | 43,029             | 1,441    | 39,655             | 1,324    |
| Cathay Securities Co., Ltd.                       | 5,700              | 191      | 5,577              | 186      |
| Cathay Securities Investment Trust Co., Ltd.      | 15,038             | 503      | 14,545             | 485      |
| Cathay Securities Investment Consulting Co., Ltd. | 12,404             | 415      | 10,911             | 364      |



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| Accounts/Related parties  | 2014.1.1-2014.6.30 |          | 2013.1.1-2013.6.30 |          |
|---|--------------------|----------|--------------------|----------|
|   | NT\$               | US\$     | NT\$               | US\$     |
| <b>6. Other operating income</b>  |                    |          |                    |          |
| Parent company  |                    |          |                    |          |
| Cathay Financial Holding Co., Ltd.                                      | \$3,054            | \$102    | \$1,797            | \$60     |
| Other related parties   |                    |          |                    |          |
| Cathay Life Insurance Co., Ltd.   | 3,293              | 110      | 2,070              | 69       |
| Cathay Century Insurance Co., Ltd.                                      | 374                | 13       | 245                | 8        |
|   |                    |          |                    |          |
| Accounts/Related parties  | 2014.1.1-2014.6.30 |          | 2013.1.1-2013.6.30 |          |
|   | NT\$               | US\$     | NT\$               | US\$     |
| <b>7. Operating expenses</b>  |                    |          |                    |          |
| Subsidiaries  |                    |          |                    |          |
| Seaward Card Co., Ltd.  | \$108,068          | \$3,618  | \$117,390          | \$3,918  |
| Other related parties   |                    |          |                    |          |
| Cathay Life Insurance Co., Ltd.   | 89,464             | 2,995    | 46,241             | 1,543    |
| Symphox Information Co., Ltd.   | 222,399            | 7,446    | 206,968            | 6,908    |
| Cathay Real Estate Development Co., Ltd.                                | 2,646              | 89       | 2,648              | 88       |
| Cathay General Hospital   | 27                 | 1        | 1,911              | 64       |
| Lin Yuan Property Management and Maintenance Co., Ltd.                  | 3,820              | 128      | 4,048              | 135      |
| Cathay Healthcare Inc.  | 8,225              | 275      | 2,989              | 100      |
|   |                    |          |                    |          |
| Accounts/Related parties  | 2014.1.1-2014.6.30 |          | 2013.1.1-2013.6.30 |          |
|   | NT\$               | US\$     | NT\$               | US\$     |
| <b>8. Insurance expenses</b>  |                    |          |                    |          |
| Other related parties   |                    |          |                    |          |
| Cathay Life Insurance Co., Ltd.   | \$29,920           | \$1,002  | \$345,487          | \$11,532 |
| Cathay Century Insurance Co., Ltd.                                      | 46,811             | 1,567    | 31,146             | 1,040    |
|   |                    |          |                    |          |
| Accounts/Related parties  | 2014.6.30          |          | 2013.12.31         |          |
|   | NT\$               | US\$     | NT\$               | US\$     |
| <b>9. Related party receivables for allocation of linked-tax system</b> |                    |          |                    |          |
| Parent company  |                    |          |                    |          |
| Cathay Financial Holdings Co., Ltd.                                     | \$502,245          | \$16,814 | \$256,312          | \$8,592  |
|   |                    |          |                    |          |
| Accounts/Related parties  | 2013.6.30          |          | 2013.1.1           |          |
|   | NT\$               | US\$     | NT\$               | US\$     |
| Parent company  |                    |          |                    |          |
| Cathay Financial Holdings Co., Ltd.                                     | \$375,330          | \$12,528 | \$246,573          | \$8,488  |

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| Accounts/Related parties                   | 2014.6.30 |          | 2013.12.31 |          |
|--|-----------|----------|------------|----------|
|  | NT\$      | US\$     | NT\$       | US\$     |
| <u>10. Refundable deposit</u>              |           |          |            |          |
| Other related parties                      |           |          |            |          |
| Cathay Futures Corp.                       | \$52,448  | \$1,756  | \$52,448   | \$1,758  |
| Accounts/Related parties                   | 2013.6.30 |          | 2013.1.1   |          |
|  | NT\$      | US\$     | NT\$       | US\$     |
| Parent company                             |           |          |            |          |
| Cathay Financial Holdings Co., Ltd.        | \$61,873  | \$2,065  | \$64,345   | \$2,215  |
| Accounts/Related parties                   | 2014.6.30 |          | 2013.12.31 |          |
|  | NT\$      | US\$     | NT\$       | US\$     |
| <u>11. Other receivable-cash dividends</u> |           |          |            |          |
| Subsidiary                                 |           |          |            |          |
| Indovina Bank                              | \$284,193 | \$9,514  | \$119,800  | \$4,016  |
| Accounts/Related parties                   | 2013.6.30 |          | 2013.1.1   |          |
|  | NT\$      | US\$     | NT\$       | US\$     |
| Subsidiary                                 |           |          |            |          |
| Indovina Bank                              | \$542,160 | \$18,096 | \$407,904  | \$14,041 |
| Associates                                 |           |          |            |          |
| Taiwan Finance Corp.                       | 27,899    | 931      | -          | -        |
| Accounts/Related parties                   | 2014.6.30 |          | 2013.12.31 |          |
|  | NT\$      | US\$     | NT\$       | US\$     |
| <u>12. Accrued expenses</u>                |           |          |            |          |
| Subsidiaries                               |           |          |            |          |
| Seaward Card Co., Ltd.                     | \$23,644  | \$792    | \$24,857   | \$833    |
| Accounts/Related parties                   | 2013.6.30 |          | 2013.1.1   |          |
|  | NT\$      | US\$     | NT\$       | US\$     |
| Subsidiaries                               |           |          |            |          |
| Seaward Card Co., Ltd.                     | \$25,497  | \$851    | \$26,131   | \$900    |

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| Accounts/Related parties                                | 2014.6.30          |         | 2013.12.31         |         |
|---|--------------------|---------|--------------------|---------|
|   | NT\$               | US\$    | NT\$               | US\$    |
| <b>13. <u>Accounts payable</u></b>                      |                    |         |                    |         |
| Other realated parties                                  |                    |         |                    |         |
| Cathay Century Insurance Co., Ltd.                      | \$2,123            | \$71    | \$39,745           | \$1,332 |
| Symphox Information Co., Ltd.                           | 30,667             | 1,027   | 15,655             | 525     |
|   |                    |         |                    |         |
| Accounts/Related parties                                | 2013.6.30          |         | 2013.1.1           |         |
|   | NT\$               | US\$    | NT\$               | US\$    |
| Other realated parties                                  |                    |         |                    |         |
| Cathay Century Insurance Co., Ltd.                      | \$8,076            | \$270   | \$4,855            | \$167   |
| Symphox Information Co., Ltd.                           | 24,156             | 806     | 12,396             | 427     |
|   |                    |         |                    |         |
| Accounts/Related parties                                | 2014.1.1-2014.6.30 |         | 2013.1.1-2013.6.30 |         |
|   | NT\$               | US\$    | NT\$               | US\$    |
| <b>14. <u>Key management personnel compensation</u></b> |                    |         |                    |         |
| Short-term employee benefits                            | \$71,068           | \$2,379 | \$62,566           | \$2,088 |
| Post-employment benefits                                | 2,003              | 67      | 3,918              | 131     |
| Total   | \$73,071           | \$2,446 | \$66,484           | \$2,219 |

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

**15. Others**

- a. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of NT\$4,479 (US\$150) and NT\$1,876 (US\$63) during the six-month periods ended 30 June 2014 and 2013, respectively.
- b. The Bank purchased bonus points in exchange for merchandise for the Bank's customer from Symphox Information Co., Ltd. As of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, the unconverted bonus points amounted to NT\$22,282 (US\$746), NT\$26,049 (US\$873), NT\$23,720 (US\$792) and NT\$26,517 (US\$913), respectively.
- c. The Bank entered into a contract with Cathay Life Insurance Co., Ltd. to transferring credit facilities. The transferring loan amount was NT\$307,050 (US\$10,280) during the six-month periods ended 30 June 2014.

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

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

VIII. Assets pledged as security

See Notes VI.

IX. Commitments and contingencies

As of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013 the Bank had the following commitments and contingent liabilities, which are not reflected in the consolidated financial statements:

|  | 2014.6.30     |              | 2013.12.31    |              |
|--|---------------|--------------|---------------|--------------|
|  | NT\$          | US\$         | NT\$          | US\$         |
| Entrusted Items and Guarantees:  |               |              |               |              |
| Trust and security held for safekeeping  | \$490,542,988 | \$16,422,598 | \$438,098,386 | \$14,686,503 |
| Travelers checks for sale  | 487,247       | 16,312       | 559,217       | 18,747       |
| Bills for collection   | 45,657,110    | 1,528,527    | 44,881,814    | 1,504,586    |
| Book-entry for government bonds and depository for short-term marketable securities under management | 544,527,400   | 18,229,910   | 573,257,300   | 19,217,476   |
| Entrusted financial management business  | 5,387,639     | 180,370      | 3,190,719     | 106,963      |
| Guarantees on duties and contracts   | 10,191,506    | 341,195      | 11,270,885    | 377,837      |
| Unused commercial letters of credit  | 5,117,051     | 171,311      | 3,202,955     | 107,374      |
| Irrevocable loan commitments   | 194,774,968   | 6,520,756    | 165,615,358   | 5,551,973    |
| Credit card lines commitments  | 404,617,652   | 13,545,954   | 379,793,417   | 12,731,928   |
| Stamp tax, securities and memorial currency consignments   | -             | -            | 1,006         | 34           |

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|  | 2013.6.30     |              | 2013.1.1      |              |
|--|---------------|--------------|---------------|--------------|
|  | NT\$          | US\$         | NT\$          | US\$         |
| <b>Entrusted Items and Guarantees:</b>   |               |              |               |              |
| Trust and security held for safekeeping  | \$395,752,086 | \$13,209,349 | \$337,334,621 | \$11,612,207 |
| Travelers checks for sale  | 472,990       | 15,787       | 462,167       | 15,909       |
| Bills for collection   | 42,506,808    | 1,418,785    | 39,523,311    | 1,360,527    |
| Book-entry for government bonds and<br>depository for short-term marketable<br>securities under management | 564,703,900   | 18,848,595   | 564,494,500   | 19,431,824   |
| Entrusted financial management business  | 4,262,909     | 142,287      | 2,385,838     | 82,129       |
| Guarantees on duties and contracts   | 10,711,299    | 357,520      | 12,081,454    | 415,885      |
| Unused commercial letters of credit  | 3,695,483     | 123,347      | 4,281,218     | 147,374      |
| Irrevocable loan commitments   | 63,943,341    | 2,134,291    | 34,415,264    | 1,184,691    |
| Credit card lines commitments  | 301,187,898   | 10,053,001   | 295,794,164   | 10,182,243   |
| Stamp tax, securities and memorial<br>currency consignments  | 1,006         | 34           | 1,006         | 35           |

2. As of 30 June 2014, the Bank's significant lawsuits and proceedings are as follows:

Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that the Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted to NT\$0.99 billion (US\$33 million) and NT\$3.09 billion (US\$103 million), respectively. The lawsuit was in the litigation procedures in July 2007 and is still under trial by Taipei District court. The Bank is in mediation procedure with SanDisk Corporation. The Bank has been advised by its legal advisor that it is possible, but not probable, that the action will be resolved in the Bank's favor and accordingly no provision for such claims has been made in these financial statements.

3. According to the operating leases agreements of the Bank, rentals for lease that should be paid in future are disclosed in Notes XII.

X. Losses due to major disasters

None.

XI. Significant subsequent events

None.

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XII. Other

1. Disclosure of financial instruments information

(1) Information of fair value

|  | 2014.6.30              |                     |                        |                     |
|--|------------------------|---------------------|------------------------|---------------------|
|  | Carrying value         |                     | Fair value             |                     |
|  | NT\$                   | US\$                | NT\$                   | US\$                |
| <u>Financial assets</u>                                    |                        |                     |                        |                     |
| Assets:  |                        |                     |                        |                     |
| Financial assets at fair value through profit or loss      | \$130,142,283          | \$4,356,956         | \$130,142,283          | \$4,356,956         |
| Available-for-sale financial assets                        | 64,515,005             | 2,159,859           | 64,515,005             | 2,159,859           |
| Held-to-maturity financial assets                          | 50,043,774             | 1,675,386           | 52,101,603             | 1,744,279           |
| Investment in debt securities with no active market        | 331,806,014            | 11,108,337          | 332,356,894            | 11,126,779          |
| Loans and receivable:                                      |                        |                     |                        |                     |
| Cash and cash equivalents (exclude cash on hand)           | 96,507,188             | 3,230,907           | 96,507,188             | 3,230,907           |
| Due from the Central Bank and call loan to banks           | 124,634,758            | 4,172,573           | 124,634,758            | 4,172,573           |
| Securities purchased under agreements to resell            | 19,216,895             | 643,351             | 19,216,895             | 643,351             |
| Receivable, net  | 83,455,469             | 2,793,956           | 83,455,469             | 2,793,956           |
| Discounts and loans, net                                   | 1,091,318,417          | 36,535,602          | 1,091,318,417          | 36,535,602          |
| Other financial assets, net                                | 4,223                  | 141                 | 4,223                  | 141                 |
| Other assets, net  | 4,799,718              | 160,687             | 4,799,718              | 160,687             |
| Subtotal   | <u>1,419,936,668</u>   | <u>47,537,217</u>   | <u>1,419,936,668</u>   | <u>47,537,217</u>   |
| Derivative financial assets for hedging                    | 637,445                | 21,341              | 637,445                | 21,341              |
| Total  | <u>\$1,997,081,189</u> | <u>\$66,859,096</u> | <u>\$1,999,689,898</u> | <u>\$66,946,431</u> |
| <u>Financial liabilities</u>                               |                        |                     |                        |                     |
| Financial liabilities at fair value through profit or loss | \$13,350,569           | \$446,956           | \$13,350,569           | \$446,956           |
| Financial liabilities at amortized cost:                   |                        |                     |                        |                     |
| Due to the Central Bank and call loans from banks          | 61,841,533             | 2,070,356           | 61,841,533             | 2,070,356           |
| Funds borrowed from the Central Bank and other banks       | 1,495,750              | 50,075              | 1,495,750              | 50,075              |
| Securities sold under agreements to repurchase             | 62,862,503             | 2,104,536           | 62,862,503             | 2,104,536           |
| Payables   | 14,804,764             | 495,640             | 14,804,764             | 495,640             |
| Deposits and remittances                                   | 1,627,929,567          | 54,500,488          | 1,627,929,567          | 54,500,488          |
| Financial debentures payable                               | 67,214,791             | 2,250,244           | 67,214,791             | 2,250,244           |
| Other financial liabilities                                | 65,070,447             | 2,178,455           | 65,070,447             | 2,178,455           |
| Others   | 975,384                | 32,654              | 975,384                | 32,654              |
| Subtotal   | <u>1,902,194,739</u>   | <u>63,682,448</u>   | <u>1,902,194,739</u>   | <u>63,682,448</u>   |
| Total  | <u>\$1,915,545,308</u> | <u>\$64,129,404</u> | <u>\$1,915,545,308</u> | <u>\$64,129,404</u> |

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|  | 2013.12.31      |              |                 |              |
|--|-----------------|--------------|-----------------|--------------|
|  | Carrying value  |              | Fair value      |              |
|  | NT\$            | US\$         | NT\$            | US\$         |
| <b><u>Financial assets</u></b>                             |                 |              |                 |              |
| Assets:  |                 |              |                 |              |
| Financial assets at fair value through profit or loss      | \$162,997,211   | \$5,464,204  | \$162,997,211   | \$5,464,204  |
| Available-for-sale financial assets                        | 67,046,565      | 2,247,622    | 67,046,565      | 2,247,622    |
| Held-to-maturity financial assets                          | 50,711,678      | 1,700,023    | 51,790,278      | 1,736,181    |
| Investment in debt securities with no active market        | 280,272,013     | 9,395,642    | 280,671,503     | 9,409,035    |
| Loans and receivable:                                      |                 |              |                 |              |
| Cash and cash equivalents (exclude cash on hand)           | 53,345,242      | 1,788,308    | 53,345,242      | 1,788,308    |
| Due from the Central Bank and call loan to banks           | 140,479,847     | 4,709,348    | 140,479,847     | 4,709,348    |
| Securities purchased under agreements to resell            | 7,645,763       | 256,311      | 7,645,763       | 256,311      |
| Receivable, net  | 120,044,971     | 4,024,303    | 120,044,971     | 4,024,303    |
| Discounts and loans, net                                   | 1,013,723,116   | 33,983,343   | 1,013,723,116   | 33,983,343   |
| Other financial assets, net                                | 22,154          | 743          | 22,154          | 743          |
| Other assets, net  | 3,916,156       | 131,283      | 3,916,156       | 131,283      |
| Subtotal   | 1,339,177,249   | 44,893,639   | 1,339,177,249   | 44,893,639   |
| Derivative financial assets for hedging                    | 837,179         | 28,065       | 837,179         | 28,065       |
| Total  | \$1,901,041,895 | \$63,729,195 | \$1,902,519,985 | \$63,778,746 |
| <b><u>Financial liabilities</u></b>                        |                 |              |                 |              |
| Financial liabilities at fair value through profit or loss | \$11,271,187    | \$377,847    | \$11,271,187    | \$377,847    |
| Financial liabilities at amortized cost:                   |                 |              |                 |              |
| Due to the Central Bank and call loans from banks          | 50,630,112      | 1,697,288    | 50,630,112      | 1,697,288    |
| Funds borrowed from the Central Bank and other banks       | 1,497,500       | 50,201       | 1,497,500       | 50,201       |
| Securities sold under agreements to repurchase             | 58,681,600      | 1,967,201    | 58,681,600      | 1,967,201    |
| Payables   | 14,795,810      | 496,004      | 14,795,810      | 496,004      |
| Deposits and remittances                                   | 1,596,302,557   | 53,513,328   | 1,596,302,557   | 53,513,328   |
| Financial debentures payable                               | 52,417,213      | 1,757,198    | 52,417,213      | 1,757,198    |
| Other financial liabilities                                | 36,145,158      | 1,211,705    | 36,145,158      | 1,211,705    |
| Others   | 998,645         | 33,478       | 998,645         | 33,478       |
| Subtotal   | 1,811,468,595   | 60,726,403   | 1,811,468,595   | 60,726,403   |
| Total  | \$1,822,739,782 | \$61,104,250 | \$1,822,739,782 | \$61,104,250 |

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2013.6.30

|   | Carrying value          |                     | Fair value             |                     |
|---|-------------------------|---------------------|------------------------|---------------------|
|   | NT\$                    | US\$                | NT\$                   | US\$                |
|   | <b>Financial assets</b> |                     |                        |                     |
| <b>Assets:</b>  |                         |                     |                        |                     |
| Financial assets at fair value through profit or loss | \$76,522,933            | \$2,554,170         | \$76,522,933           | \$2,554,170         |
| Available-for-sale financial assets                   | 58,141,694              | 1,940,644           | 58,141,694             | 1,940,644           |
| Held-to-maturity financial assets                     | 48,795,146              | 1,628,676           | 49,517,010             | 1,652,770           |
| Investment in debt securities with no active market   | 442,136,122             | 14,757,547          | 442,756,828            | 14,778,265          |
| <b>Loans and receivable:</b>                          |                         |                     |                        |                     |
| Cash and cash equivalents (exclude cash on hand)      | 31,885,833              | 1,064,281           | 31,885,833             | 1,064,281           |
| Due from the Central Bank and call loan to banks      | 83,210,460              | 2,777,385           | 83,210,460             | 2,777,385           |
| Securities purchased under agreements to resell       | 5,492,597               | 183,331             | 5,492,597              | 183,331             |
| Receivable, net                                       | 84,437,535              | 2,818,342           | 84,437,535             | 2,818,342           |
| Discounts and loans, net                              | 981,314,522             | 32,754,156          | 981,314,522            | 32,754,156          |
| Other financial assets, net                           | 656,262                 | 21,905              | 656,262                | 21,905              |
| Other assets, net                                     | 3,581,455               | 119,541             | 3,581,455              | 119,541             |
| Subtotal  | 1,190,578,664           | 39,738,941          | 1,190,578,664          | 39,738,941          |
| Derivative financial assets for hedging               | 1,017,819               | 33,973              | 1,017,819              | 33,973              |
| <b>Total</b>  | <b>\$1,817,192,378</b>  | <b>\$60,653,951</b> | <b>\$1,818,534,948</b> | <b>\$60,698,763</b> |
| <b>Financial liabilities</b>                          |                         |                     |                        |                     |
| Financial assets at fair value through profit or loss | \$7,178,537             | \$239,604           | \$7,178,537            | \$239,604           |
| <b>Financial liabilities at amortized cost:</b>       |                         |                     |                        |                     |
| Due to the Central Bank and call loans from banks     | 40,472,413              | 1,350,882           | 40,472,413             | 1,350,882           |
| Funds borrowed from the Central Bank and other banks  | 1,506,000               | 50,267              | 1,506,000              | 50,267              |
| Securities sold under agreements to repurchase        | 56,427,177              | 1,883,417           | 56,427,177             | 1,883,417           |
| Payables  | 25,348,475              | 846,077             | 25,348,475             | 846,077             |
| Deposits and remittances                              | 1,550,595,088           | 51,755,510          | 1,550,595,088          | 51,755,510          |
| Financial debentures payable                          | 52,649,271              | 1,757,319           | 52,649,271             | 1,757,319           |
| Other financial liabilities                           | 20,578,371              | 686,862             | 20,578,371             | 686,862             |
| Others  | 987,747                 | 32,969              | 987,747                | 32,969              |
| Subtotal  | 1,748,564,542           | 58,363,303          | 1,748,564,542          | 58,363,303          |
| <b>Total</b>  | <b>\$1,755,743,079</b>  | <b>\$58,602,907</b> | <b>\$1,755,743,079</b> | <b>\$58,602,907</b> |



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|  | 2013.1.1               |                     |                        |                     |
|--|------------------------|---------------------|------------------------|---------------------|
|  | Carrying value         |                     | Fair value             |                     |
|  | NT\$                   | US\$                | NT\$                   | US\$                |
| <u>Financial assets</u>                                    |                        |                     |                        |                     |
| Financial assets at fair value through profit or loss      | \$67,796,967           | \$2,333,803         | \$67,796,967           | \$2,333,803         |
| Available-for-sale financial assets                        | 63,186,407             | 2,175,091           | 63,186,407             | 2,175,091           |
| Held-to-maturity financial assets                          | 20,542,870             | 707,156             | 23,338,117             | 803,378             |
| Investment in debt securities with no active market        | 424,043,663            | 14,597,028          | 423,665,567            | 14,584,013          |
| Loans and receivable:                                      |                        |                     |                        |                     |
| Cash and cash equivalents (exclude cash on hand)           | 20,945,857             | 721,027             | 20,945,857             | 721,027             |
| Due from the Central Bank and call loan to banks           | 98,844,688             | 3,402,571           | 98,844,688             | 3,402,571           |
| Receivable, net  | 50,728,353             | 1,746,243           | 50,728,353             | 1,746,243           |
| Discounts and loans, net                                   | 986,516,412            | 33,959,257          | 986,516,412            | 33,959,257          |
| Other financial assets, net                                | 13,619                 | 469                 | 13,619                 | 469                 |
| Other assets, net  | 1,296,934              | 44,645              | 1,296,934              | 44,645              |
| Subtotal   | 1,158,345,863          | 39,874,212          | 1,158,345,863          | 39,874,212          |
| Derivative financial assets for hedging                    | 1,203,138              | 41,416              | 1,203,138              | 41,416              |
| Total  | <u>\$1,735,118,908</u> | <u>\$59,728,706</u> | <u>\$1,737,536,059</u> | <u>\$59,811,913</u> |
| <u>Financial liabilities</u>                               |                        |                     |                        |                     |
| Financial liabilities at fair value through profit or loss | \$4,967,738            | \$171,006           | \$4,967,738            | \$171,006           |
| Financial liabilities at amortized cost:                   |                        |                     |                        |                     |
| Due to the Central Bank and call loans from banks          | 51,891,103             | 1,786,269           | 51,891,103             | 1,786,269           |
| Funds borrowed from the Central Bank and other banks       | 1,456,800              | 50,148              | 1,456,800              | 50,148              |
| Securities sold under agreements to repurchase             | 20,369,249             | 701,179             | 20,369,249             | 701,179             |
| Payables   | 21,225,349             | 730,649             | 21,225,349             | 730,649             |
| Deposits and remittances                                   | 1,520,735,366          | 52,348,894          | 1,520,735,366          | 52,348,894          |
| Financial debentures payable                               | 42,518,631             | 1,463,636           | 42,518,631             | 1,463,636           |
| Other financial liabilities                                | 17,426,191             | 599,869             | 17,426,191             | 599,869             |
| Others   | 1,199,725              | 41,298              | 1,199,725              | 41,298              |
| Subtotal   | 1,676,822,414          | 57,721,942          | 1,676,822,414          | 57,721,942          |
| Total  | <u>\$1,681,790,152</u> | <u>\$57,892,948</u> | <u>\$1,681,790,152</u> | <u>\$57,892,948</u> |

(2) The methodologies and assumptions used by the Bank to estimate the above fair value of financial instruments are summarized as follows:

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

- B. Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss, available-for-sale financial instruments, held-to-maturity financial assets and derivatives financial instruments of hedging. If no quoted market prices exist for certain financial instruments, the fair value of such instruments has been derived based on pricing models. A price model incorporates all factors that market participants would consider in setting a price. The discounted cash flow technique is used to estimate the fair value of a debt instrument where an active market does not exist. The estimates, hypotheses and discount rates for valuation refer to quoted prices, from financial instruments, of financial instruments having substantially the same terms and characteristics, including the credit quality of debtors, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal, and the currency in which the payments are to be made.
- C. Discounts and loans, deposits and principals received from the sale of structured products are classified as interest-bearing financial instruments. Thus, their carrying value is equivalent to their fair value. The face value of delinquent accounts deducted from allowance for doubtful accounts is adopted as fair value.
- D. Investment accounted for using the equity method were non-listed stocks that do not have a quoted price in an active market. The variability in the range of reasonable fair value estimates is not significant for that instrument and the probabilities of the various estimates within the range cannot be reasonably assessed. Since the fair value cannot be reliably measured, the carrying amount should be the reasonable basis to estimate the fair value.
- E. According to the “Regulations Governing the Preparation of Financial Reports by Public Banks”, financial assets measured at cost are the stocks that were not public traded in Taiwan Stock Exchange and GreTai Securities Market and derivative instruments linked to or settled by delivery of such unquoted equity investments shall be measured at cost.
- F. The fair value of financial debentures payable is estimated by discounting future cash flows using rates currently available for debt on similar terms and remaining maturities.
- G. If the derivatives do not have market prices available to compare, the discounted-cash-flow model is applied to forward currency and interest rate swap and Black-Scholes model, Binomial Option Price model or Monte-Carlo-method are applied to option derivatives.

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

(3) The fair value hierarchy information of the financial instruments.

A. The definition of the hierarchy of the financial instruments is measured at fair value:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

B. The Bank's fair value hierarchy of the financial instruments:

| Item   | 2014.6.30    |           |                       |           |                       |           |                       |      |
|--|--------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|------|
|  | Total        |           | 1 <sup>st</sup> Level |           | 2 <sup>nd</sup> Level |           | 3 <sup>rd</sup> Level |      |
|  | NT\$         | US\$      | NT\$                  | US\$      | NT\$                  | US\$      | NT\$                  | US\$ |
| <u>Non-derivative financial instruments</u>                |              |           |                       |           |                       |           |                       |      |
| Assets   |              |           |                       |           |                       |           |                       |      |
| Financial assets at fair value through profit or loss:     |              |           |                       |           |                       |           |                       |      |
| Financial assets for trading                               |              |           |                       |           |                       |           |                       |      |
| Bonds  | \$15,879,334 | \$531,615 | \$6,943,748           | \$232,466 | \$8,935,586           | \$299,149 | \$-                   | \$-  |
| Others   | 100,647,696  | 3,369,524 | -                     | -         | 100,647,696           | 3,369,524 | -                     | -    |
| Available-for-sale financial assets                        |              |           |                       |           |                       |           |                       |      |
| Stocks   | 14,319,905   | 479,408   | 10,585,333            | 354,380   | 3,734,572             | 125,028   | -                     | -    |
| Bonds  | 49,833,951   | 1,668,361 | 14,901,496            | 498,878   | 34,932,455            | 1,169,483 | -                     | -    |
| Others   | 361,149      | 12,091    | 361,149               | 12,091    | -                     | -         | -                     | -    |
| Liabilities  |              |           |                       |           |                       |           |                       |      |
| Financial liabilities at fair value through profit or loss | 199,417      | 6,676     | 199,417               | 6,676     | -                     | -         | -                     | -    |
| Financial debentures payable                               | 10,314,791   | 345,323   | -                     | -         | 10,314,791            | 345,323   | -                     | -    |
| <u>Derivative financial instruments</u>                    |              |           |                       |           |                       |           |                       |      |
| Assets   |              |           |                       |           |                       |           |                       |      |
| Financial assets at fair value through profit or loss      | 13,615,253   | 455,817   | 330                   | 11        | 13,614,923            | 455,806   | -                     | -    |
| Derivative financial assets for hedging                    | 637,445      | 21,341    | -                     | -         | 637,445               | 21,341    | -                     | -    |
| Liabilities  |              |           |                       |           |                       |           |                       |      |
| Financial liabilities at fair value through profit or loss | 13,151,152   | 440,280   | -                     | -         | 13,151,152            | 440,280   | -                     | -    |

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| Item   | 2013.12.31   |           |                       |           |                       |           |                       |      |
|--|--------------|-----------|-----------------------|-----------|-----------------------|-----------|-----------------------|------|
|  | Total        |           | 1 <sup>st</sup> Level |           | 2 <sup>nd</sup> Level |           | 3 <sup>rd</sup> Level |      |
|  | NT\$         | US\$      | NT\$                  | US\$      | NT\$                  | US\$      | NT\$                  | US\$ |
| <u>Non-derivative financial instruments</u>                |              |           |                       |           |                       |           |                       |      |
| Assets   |              |           |                       |           |                       |           |                       |      |
| Financial assets at fair value through profit or loss:     |              |           |                       |           |                       |           |                       |      |
| Financial assets for trading                               |              |           |                       |           |                       |           |                       |      |
| Bonds  | \$8,812,709  | \$295,431 | \$4,309,686           | \$144,475 | \$4,503,023           | \$150,956 | \$-                   | \$-  |
| Others   | 143,666,541  | 4,816,176 | -                     | -         | 143,666,541           | 4,816,176 | -                     | -    |
| Available-for-sale financial assets                        |              |           |                       |           |                       |           |                       |      |
| Stocks   | 14,208,356   | 476,311   | 10,631,376            | 356,399   | 3,576,980             | 119,912   | -                     | -    |
| Bonds  | 51,887,035   | 1,739,425 | 15,528,536            | 520,568   | 36,358,499            | 1,218,857 | -                     | -    |
| Others   | 951,174      | 31,886    | 951,174               | 31,886    | -                     | -         | -                     | -    |
| Liabilities  |              |           |                       |           |                       |           |                       |      |
| Financial liabilities at fair value through profit or loss | 497,002      | 16,661    | -                     | -         | 497,002               | 16,661    | -                     | -    |
| Financial debentures payable                               | 10,517,213   | 352,572   | -                     | -         | 10,517,213            | 352,572   | -                     | -    |
| <u>Derivative financial instruments</u>                    |              |           |                       |           |                       |           |                       |      |
| Assets   |              |           |                       |           |                       |           |                       |      |
| Financial assets at fair value through profit or loss      | 10,517,961   | 352,597   | -                     | -         | 10,517,961            | 352,597   | -                     | -    |
| Derivative financial assets for hedging                    | 837,179      | 28,065    | -                     | -         | 837,179               | 28,065    | -                     | -    |
| Liabilities  |              |           |                       |           |                       |           |                       |      |
| Financial liabilities at fair value through profit or loss | 10,774,185   | 361,186   | -                     | -         | 10,774,185            | 361,186   | -                     | -    |
| <br>   |              |           |                       |           |                       |           |                       |      |
| 2013.6.30  |              |           |                       |           |                       |           |                       |      |
| Item   | Total        |           | 1 <sup>st</sup> Level |           | 2 <sup>nd</sup> Level |           | 3 <sup>rd</sup> Level |      |
|  | NT\$         | US\$      | NT\$                  | US\$      | NT\$                  | US\$      | NT\$                  | US\$ |
| <u>Non-derivative financial instruments</u>                |              |           |                       |           |                       |           |                       |      |
| Assets   |              |           |                       |           |                       |           |                       |      |
| Financial assets at fair value through profit or loss:     |              |           |                       |           |                       |           |                       |      |
| Financial assets for trading                               |              |           |                       |           |                       |           |                       |      |
| Bonds  | \$11,699,195 | \$390,494 | \$11,699,195          | \$390,494 | \$-                   | \$-       | \$-                   | \$-  |
| Others   | 56,531,328   | 1,886,893 | 363,880               | 12,145    | 56,167,448            | 1,874,748 | -                     | -    |
| Available-for-sale financial assets                        |              |           |                       |           |                       |           |                       |      |
| Stocks   | 12,947,730   | 432,167   | 9,066,859             | 302,632   | 3,880,871             | 129,535   | -                     | -    |
| Bonds  | 44,410,419   | 1,482,324 | 13,376,652            | 446,484   | 31,033,767            | 1,035,840 | -                     | -    |
| Others   | 783,545      | 26,153    | 783,545               | 26,153    | -                     | -         | -                     | -    |
| Liabilities  |              |           |                       |           |                       |           |                       |      |
| Financial debentures payable                               | 10,749,271   | 358,787   | -                     | -         | 10,749,271            | 358,787   | -                     | -    |
| <u>Derivative financial instruments</u>                    |              |           |                       |           |                       |           |                       |      |
| Assets   |              |           |                       |           |                       |           |                       |      |
| Financial assets at fair value through profit or loss      | 8,292,410    | 276,783   | 66                    | 2         | 8,292,344             | 276,781   | -                     | -    |
| Derivative financial assets for hedging                    | 1,017,819    | 33,973    | -                     | -         | 1,017,819             | 33,973    | -                     | -    |
| Liabilities  |              |           |                       |           |                       |           |                       |      |
| Financial liabilities at fair value through profit or loss | 7,178,537    | 239,604   | -                     | -         | 7,178,537             | 239,604   | -                     | -    |

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| Item   | 2013.1.1    |           |                       |          |                       |           |                       |      |
|--|-------------|-----------|-----------------------|----------|-----------------------|-----------|-----------------------|------|
|  | Total       |           | 1 <sup>st</sup> Level |          | 2 <sup>nd</sup> Level |           | 3 <sup>rd</sup> Level |      |
|  | NT\$        | US\$      | NT\$                  | US\$     | NT\$                  | US\$      | NT\$                  | US\$ |
| <u>Non-derivative financial instruments</u>                |             |           |                       |          |                       |           |                       |      |
| Assets   |             |           |                       |          |                       |           |                       |      |
| Financial assets at fair value through profit or loss:     |             |           |                       |          |                       |           |                       |      |
| Financial assets for trading                               |             |           |                       |          |                       |           |                       |      |
| Bonds  | \$4,030,538 | \$138,745 | \$824,388             | \$28,378 | \$3,206,150           | \$110,367 | \$-                   | \$-  |
| Others   | 59,110,475  | 2,034,784 | -                     | -        | 59,110,475            | 2,034,784 | -                     | -    |
| Available-for-sale financial assets                        |             |           |                       |          |                       |           |                       |      |
| Stocks   | 11,251,569  | 387,318   | 7,348,855             | 252,973  | 3,902,714             | 134,345   | -                     | -    |
| Bonds  | 50,164,514  | 1,726,833 | 15,861,748            | 546,015  | 34,302,766            | 1,180,818 | -                     | -    |
| Others   | 1,770,324   | 60,940    | 1,770,324             | 60,940   | -                     | -         | -                     | -    |
| Liabilities  |             |           |                       |          |                       |           |                       |      |
| Financial debentures payable                               | 10,618,631  | 365,529   | -                     | -        | 10,618,631            | 365,529   | -                     | -    |
| <u>Derivative financial instruments</u>                    |             |           |                       |          |                       |           |                       |      |
| Assets   |             |           |                       |          |                       |           |                       |      |
| Financial assets at fair value through profit or loss      | 4,655,954   | 160,274   | 61                    | 2        | 4,655,893             | 160,272   | -                     | -    |
| Derivative financial assets for hedging                    | 1,203,138   | 41,416    | -                     | -        | 1,203,138             | 41,616    | -                     | -    |
| Liabilities  |             |           |                       |          |                       |           |                       |      |
| Financial liabilities at fair value through profit or loss | 4,967,738   | 171,006   | -                     | -        | 4,967,738             | 171,006   | -                     | -    |

## 2. Financial risk management

### Risk control and hedging strategy

The Bank's risk control and hedging strategy followed the requirement of customer service-oriented banking industry and regulatory environment. In order to comply with the above requirements, the Bank adopted different risk management methods to indentify its risks and the Bank followed the sprit and regulation of the "Basel Accord" to keep strengthening its assets and the practices of capital management to maintain the best capital adequacy ratio.

The Bank organized the risk management committee and its responsibilities are as illustrated below:

- A. To amend the risk management policies, risk appetite or risk tolerance and report the above issues to board of directors for approval.
- B. To manage and decide the strategy about the Bank's credit risk, market risk and operating risk management.
- C. To report the significant risk management issues, such as credit ratings, market assessment and risk indicators.
- D. To analyze the issues that the Bank's business unit brought up for discussion.
- E. Other issues.

The Bank organized a risk management group to monitor, lead, develop, and establish the integral risk management framework.

### 3. Market risk

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

The Bank organized market risk management department and the committee of assets and liabilities management is responsible for monitoring the market risk management. The department and committee periodically examine the Bank's structure of assets and liabilities; plan the pricing principle of deposit and loan and financing and using scheme of medium and long term funding while executing the market risk management, the market risk management department periodically provides the related information of management and reports to the authorized managers of the Bank for the management system, such as valuating position, risk limit management, calculating of profit and loss, pricing model and risk analysis, in order to control the overall market risk.

#### Market risk management process

##### (1) Identification and measurement

The operating department and risk management department of the Bank identified the market risk factors of risk exposure position, and measured the market risk further. Market risk factors are the components that could have impact on value of financial instrument, such as interest rates, foreign exchange rates, equity securities...etc, including position, gain and loss, the loss of stress test, sensitivity (DVO1, Delta, Vega, Gamma) and Value at Risk (VaR)...etc, to measure the extent of investment portfolio that is influenced by interest risk, foreign exchange risk and equity securities.

(2) Monitoring and reporting

The risk management department periodically reports the execution of market risk management target, position and gain/loss control, sensitivity analysis, stress test, and VaR of equity securities to the board of directors, and helps the board of directors to fully understand the status of market risk management. The Bank also establishes a clear reporting process. Each transaction has the requirements about limitation and stop-loss points. If the transaction reaches its stop-loss limitation, stop-loss process will be implemented immediately. If the stop-loss process is not implemented, the transaction department should document the reason of non-implementing stop-loss process and responding plan. Furthermore, the department shall be report to the executive management for approved by executive management and report to the board of directors regularly.

Risk management policy of trading book

The trading book is the portfolio of financial instruments and physical investment for the purpose of trading or the hedge on the trading book. Portfolio held for trading is which intended to earn the profit from bid-ask spread. Except positions from the above trading book, they will be called banking book.

(1) Strategy

In order to control market risk effectively and ensure the operating departments operate the transaction strategy with flexibility, the Bank evaluates various assessment and control. The portfolio of trading book has the risk limitation of each investment portfolio which is set according to the transaction strategy, category of investment and the annual profit target.

(2) Policy and procedure

The Bank sets the “Regulation Governing of Market Risk Management” as the important regulation that should be complied with when holding trading portfolio.

(3) Valuation policy

If the financial instruments of trading book have market values, they should be evaluated at least once each day by the information that is from an independent source and easily accessible. If it's evaluated by a model, a mathematical model should be used prudently, and the assumptions and parameters of the valuation model should be regularly reviewed and examined.

(4) Method of measurement

- A. The assumption and calculation of VaR: see VaR section.
- B. The Bank executes the stress test monthly with the following scenarios: the fluctuation of interest rate at 100bp, equity securities at 15% and foreign exchange rate at 3%, and reports to risk management committee regularly.

Interest risk management of trading book

(1) Definition of interest risk

Interest risk is the risk that the trading portfolios suffer losses or the change of its fair value which is caused by the fluctuation of interest rate. The main instruments include the securities and derivatives that relate to interest rates.

(2) Interest risk management procedure of trading book

The Bank prudently choose its investment target by studying the credibility and financial position of the securities issuers, their sovereign risk and the trend of interest rates. According to the operating strategy and the circumstances of the market, the Bank sets the transaction limit and stop-loss limit (including the limits of dealing room, traders, and investment...etc.) of the trading book that are reported to the executive management or the board of directors for approval.

(3) Method of measurement

- A. The assumption and calculation of VaR: see VaR section.
- B. The Bank measures the investment portfolio's interest risk exposure monthly.

Interest risk management of banking book

The main objective of interest risk management of the banking book is to enhance the interest risk management, increase the operating efficiency of the fund and strengthen the business operation.

(1) Strategy

Interest risk management enhances the Bank's ability take responsive actions to measure, to manage and avoid the risk that the fluctuation of interest rate may cause on the profit and the economic value of assets/liabilities.



(2) Management procedure

When undertaking the operations relating to interest rate instruments, the Bank identifies the repricing risk of interest rate, yield curve risk, basis risk and options risk characteristics. In addition, the Bank also measures the potential impact of interest rate changes on the profit and economic value of the Bank. The Bank analyzes and monitors the interest risk limits and each target of interest risk management monthly. The results of analysis and monitoring are regularly reported to not only the risk management committee but also the board of directors.

If any risk management targets is found to exceed the limit during the monitoring process, it will be reported to the risk management committee and a solution should be proposed.

(3) Method of measurement

The interest rate risk of the Bank mainly measures the repricing risk that is caused by the difference between maturity date and repricing date of the assets, liabilities, and off balance sheet items in banking book. To stabilize long-term profitability and ensure business growth, the Bank sets the monitoring indicators of interest sensitivity in major terms and implements stress test. Each interest risk indicator and the result of stress test are reported to the executive management regularly for review.

Foreign exchange risk management

(1) Definition of foreign exchange risk

Foreign exchange risk is the gain/loss caused by two currencies exchange in different times. The Bank's foreign exchange risk arises from the derivative instruments, such as spot exchange, forward exchange and foreign exchange option...etc. The Bank's foreign exchange transactions are implemented daily to offset clients' position. Thus, the Bank suffers little foreign exchange risk.

(2) Policy, procedure and measurement methodology of foreign exchange risk management

In order to control foreign exchange risk, the Bank sets the limits of transaction and stop-loss limits for the dealing room and traders. Meanwhile, the Bank also sets the maximum annual loss limit to control the loss within the tolerable extent. Foreign exchange risk is controlled based on VaR. The assumption and calculation of VaR is described in VaR section.

For foreign exchange risk, the Bank sets the scenario at 3% fluctuation of interest rate of major currencies to execute the stress test quarterly, and reports to the risk management committee.

Risk management of equity price

(1) Definition of risk of equity price

The market risk of equity securities held by the Bank includes the individual risk from the fluctuation of individual equity securities' market price and general market risk from the fluctuation of the overall price trend.

(2) Purpose of risk management in equity prices

To avoid the massive fluctuation of equity price to worsen the Bank's financial situation or earnings. Also, to raises the operating efficiency of capital and strengthen the business operation.

(3) Procedure of risk management of equity prices

The Bank sets investing limit on industries, using the  $\beta$  value to measure the investment portfolio affected by the systemic risk monthly. The stop-loss point must be authorized by the board of directors, and the equity investment should be authorized by the executives if the stop-loss point is reached but the investment is not going to be disposed of.

(4) Measured methodology

The risk of equity prices in trading book is mainly controlled by VaR.

The Bank's risk of equity prices from its non-trading portfolio should be control by each bank according to its own business scale to develop a stress test under appropriate scenarios and report to the risk management committee.

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

| 2014.6.30               |                 |          |                 |          |                 |          |
|-------------------------|-----------------|----------|-----------------|----------|-----------------|----------|
| Factors of market risk  | Average balance |          | Maximum balance |          | Minimum balance |          |
|                         | NT\$            | US\$     | NT\$            | US\$     | NT\$            | US\$     |
| Interest rate           | \$489,925       | \$16,402 | \$643,232       | \$21,534 | \$311,553       | \$10,430 |
| Foreign exchange        | 138,087         | 4,623    | 150,287         | 5,031    | 112,986         | 3,783    |
| Equity Securities price | 262,178         | 8,777    | 353,880         | 11,847   | 150,959         | 5,054    |

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|-------------------------|-----------------|----------|-----------------|----------|-----------------|----------|
| Factors of market risk  | Average balance |          | Maximum balance |          | Minimum balance |          |
|                         | NT\$            | US\$     | NT\$            | US\$     | NT\$            | US\$     |
| Interest rate           | \$555,070       | \$18,608 | \$772,357       | \$25,892 | \$311,553       | \$10,444 |
| Foreign exchange        | 148,142         | 4,966    | 154,844         | 5,191    | 144,266         | 4,836    |
| Equity Securities price | 231,969         | 7,776    | 352,855         | 11,829   | 133,386         | 4,472    |

| 2013.6.30               |                 |          |                 |          |                 |          |
|-------------------------|-----------------|----------|-----------------|----------|-----------------|----------|
| Factors of market risk  | Average balance |          | Maximum balance |          | Minimum balance |          |
|                         | NT\$            | US\$     | NT\$            | US\$     | NT\$            | US\$     |
| Interest rate           | \$605,836       | \$20,221 | \$876,417       | \$29,253 | \$457,036       | \$15,255 |
| Foreign exchange        | 150,046         | 5,008    | 154,844         | 5,168    | 145,275         | 4,849    |
| Equity Securities price | 189,667         | 6,331    | 352,855         | 11,778   | 133,386         | 4,452    |

| 2013.1.1                |                 |          |                 |          |                 |          |
|-------------------------|-----------------|----------|-----------------|----------|-----------------|----------|
| Factors of market risk  | Average balance |          | Maximum balance |          | Minimum balance |          |
|                         | NT\$            | US\$     | NT\$            | US\$     | NT\$            | US\$     |
| Interest rate           | \$611,347       | \$21,045 | \$876,417       | \$30,169 | \$457,036       | \$15,733 |
| Foreign exchange        | 156,656         | 5,393    | 162,280         | 5,586    | 146,608         | 5,047    |
| Equity Securities price | 124,933         | 4,301    | 165,277         | 5,689    | 60,704          | 2,090    |

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

Stress testing

The stress testing is used to measure the maximum losses of risk asset portfolio under the worst scenario. The Bank's stress testing considers various types of risk factors and reporting the results to the executive management.

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| Stress Test               |                             |             |           |
|---------------------------|-----------------------------|-------------|-----------|
| Market/ Product           | Scenarios                   | 2014.6.30   |           |
|                           |                             | NT\$        | US\$      |
| Stock Market              | Major Stock Exchanges +15%  | \$1,620,987 | \$54,268  |
|                           | Major Stock Exchanges -15%  | (1,620,987) | (54,268)  |
| Interest Rate/Bond Market | Major Interest Rate + 100bp | (4,142,399) | (138,681) |
|                           | Major Interest Rate - 100bp | 4,353,702   | 145,755   |
| Foreign Exchange Market   | Major Currencies +3%        | 1,718,958   | 57,548    |
|                           | Major Currencies -3%        | (1,718,134) | (57,520)  |
| Composite                 | Major Stock Exchanges -15%  | (4,044,428) | (135,401) |
|                           | Major Interest Rate + 100bp |             |           |
|                           | Major Currencies +3%        |             |           |

| Stress Test               |                             |             |           |
|---------------------------|-----------------------------|-------------|-----------|
| Market/ Product           | Scenarios                   | 2013.12.31  |           |
|                           |                             | NT\$        | US\$      |
| Stock Market              | Major Stock Exchanges +15%  | \$1,211,069 | \$40,599  |
|                           | Major Stock Exchanges -15%  | (1,211,069) | (40,599)  |
| Interest Rate/Bond Market | Major Interest Rate + 100bp | (4,564,436) | (153,015) |
|                           | Major Interest Rate - 100bp | 4,796,889   | 160,808   |
| Foreign Exchange Market   | Major Currencies +3%        | 1,703,503   | 57,107    |
|                           | Major Currencies -3%        | (1,703,201) | (57,097)  |
| Composite                 | Major Stock Exchanges -15%  | (4,072,002) | (136,507) |
|                           | Major Interest Rate + 100bp |             |           |
|                           | Major Currencies +3%        |             |           |

| Stress Test               |                             |             |           |
|---------------------------|-----------------------------|-------------|-----------|
| Market/ Product           | Scenarios                   | 2013.6.30   |           |
|                           |                             | NT\$        | US\$      |
| Stock Market              | Major Stock Exchanges +15%  | \$1,072,390 | \$35,794  |
|                           | Major Stock Exchanges -15%  | (1,072,390) | (35,794)  |
| Interest Rate/Bond Market | Major Interest Rate + 100bp | (4,177,943) | (139,451) |
|                           | Major Interest Rate - 100bp | 4,405,332   | 147,040   |
| Foreign Exchange Market   | Major Currencies +3%        | 1,897,167   | 63,323    |
|                           | Major Currencies -3%        | (1,896,990) | (63,317)  |
| Composite                 | Major Stock Exchanges -15%  | (3,353,166) | (111,921) |
|                           | Major Interest Rate + 100bp |             |           |
|                           | Major Currencies +3%        |             |           |

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| Stress Test               |                             |             |          |
|---------------------------|-----------------------------|-------------|----------|
| Market/ Product           | Scenarios                   | 2013.1.1    |          |
|                           |                             | NT\$        | US\$     |
| Stock Market              | Major Stock Exchanges +15%  | \$1,025,960 | \$35,317 |
|                           | Major Stock Exchanges -15%  | (1,025,960) | (35,317) |
| Interest Rate/Bond Market | Major Interest Rate + 100bp | (2,821,676) | (97,132) |
|                           | Major Interest Rate - 100bp | 2,496,083   | 85,924   |
| Foreign Exchange Market   | Major Currencies +3%        | 1,450,437   | 49,929   |
|                           | Major Currencies -3%        | (1,365,947) | (47,021) |
| Composite                 | Major Stock Exchanges -15%  | (2,397,199) | (82,520) |
|                           | Major Interest Rate + 100bp |             |          |
|                           | Major Currencies +3%        |             |          |

Sensitivity analysis

A. Interest rate risk

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

B. Foreign exchange risk

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

C. Equity price risk

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

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Market risk factor sensitivity of the Bank

|   |   | 2014.6.30                     |          |                       |       |
|---|---|-------------------------------|----------|-----------------------|-------|
|   |   | Sensitivity of profit or loss |          | Sensitivity of equity |       |
|   |   | NT\$                          | US\$     | NT\$                  | US\$  |
| Foreign exchange rate factor sensitivity (FX Delta) |   |                               |          |                       |       |
|   | USD+1%  | \$354,413                     | \$11,865 | \$-                   | \$-   |
|   | HKD+1%  | 2,807                         | 94       | -                     | -     |
|   | JPY+1%  | -                             | -        | 2,214                 | 74    |
|   | AUD+1%  | 22,729                        | 761      | -                     | -     |
|   | CNY+1%  | 33,930                        | 1,136    | 6,476                 | 217   |
|   | NTD+1%  | (413,879)                     | (13,856) | (8,689)               | (291) |
| Interest rate factor sensitivity (PVBVP)            |   |                               |          |                       |       |
|   | Yield curves (USD) parallel shift+1bp                     | (165)                         | (6)      | (23,025)              | (771) |
|   | Yield curves (HKD) parallel shift+1bp                     | -                             | -        | (13)                  | -     |
|   | Yield curves (AUD) parallel shift+1bp                     | -                             | -        | (959)                 | (32)  |
|   | Yield curves (CNY) parallel shift+1bp                     | -                             | -        | (489)                 | (16)  |
|   | Yield curves (NTD) parallel shift+1bp                     | (3,055)                       | (102)    | (14,764)              | (494) |
|   | Equity securities price factor sensitivity (Equity Delta) | -                             | -        | 108,066               | 3,618 |
|   |   | 2013.12.31                    |          |                       |       |
|   |   | Sensitivity of profit or loss |          | Sensitivity of equity |       |
|   |   | NT\$                          | US\$     | NT\$                  | US\$  |
| Foreign exchange rate factor sensitivity (FX Delta) |   |                               |          |                       |       |
|   | USD+1%  | \$463,690                     | \$15,544 | \$1,294               | \$43  |
|   | HKD+1%  | 123,647                       | 4,145    | -                     | -     |
|   | JPY+1%  | -                             | -        | 3,736                 | 125   |
|   | AUD+1%  | 16,696                        | 560      | -                     | -     |
|   | CNY+1%  | 4,261                         | 143      | -                     | -     |
|   | NTD+1%  | (594,806)                     | (19,940) | (6,258)               | (210) |
| Interest rate factor sensitivity (PVBVP)            |   |                               |          |                       |       |
|   | Yield curves (USD) parallel shift+1bp                     | (249)                         | (8)      | (27,121)              | (909) |
|   | Yield curves (HKD) parallel shift+1bp                     | -                             | -        | (29)                  | (1)   |
|   | Yield curves (AUD) parallel shift+1bp                     | -                             | -        | (923)                 | (31)  |
|   | Yield curves (CNY) parallel shift+1bp                     | -                             | -        | (637)                 | (21)  |
|   | Yield curves (NTD) parallel shift+1bp                     | (5,171)                       | (173)    | (12,667)              | (425) |
|   | Equity securities price factor sensitivity (Equity Delta) | -                             | -        | 80,738                | 2,707 |

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|---|-------------------------------|----------|-----------------------|-------|
|   | Sensitivity of profit or loss |          | Sensitivity of equity |       |
|   | NT\$                          | US\$     | NT\$                  | US\$  |
| Foreign exchange rate factor sensitivity (FX Delta)       |                               |          |                       |       |
| USD+1%  | \$434,178                     | \$14,492 | \$12                  | \$-   |
| HKD+1%  | 35,094                        | 1,171    | 88,389                | 2,950 |
| JPY+1%  | -                             | -        | 3,872                 | 129   |
| NTD+1%  | (555,794)                     | (18,551) | (14,518)              | (485) |
| Interest rate factor sensitivity (PVBP)                   |                               |          |                       |       |
| Yield curves (USD) parallel shift+1bp                     | (166)                         | (6)      | (13,110)              | (438) |
| Yield curves (HKD) parallel shift+1bp                     | -                             | -        | (23)                  | (1)   |
| Yield curves (JPY) parallel shift+1bp                     | -                             | -        | (1)                   | -     |
| Yield curves (NTD) parallel shift+1bp                     | (402)                         | (13)     | (1,175)               | (39)  |
| Equity securities price factor sensitivity (Equity Delta) | 2,547                         | 85       | 68,946                | 2,301 |

|   | 2013.1.1                      |          |                       |       |
|---|-------------------------------|----------|-----------------------|-------|
|   | Sensitivity of profit or loss |          | Sensitivity of equity |       |
|   | NT\$                          | US\$     | NT\$                  | US\$  |
| Foreign exchange rate factor sensitivity (FX Delta)       |                               |          |                       |       |
| USD+1%  | \$411,904                     | \$14,179 | \$5,220               | \$180 |
| HKD+1%  | 3,042                         | 105      | -                     | -     |
| JPY+1%  | 1                             | -        | -                     | -     |
| NTD+1%  | (458,563)                     | (15,785) | (5,769)               | (199) |
| Interest rate factor sensitivity (PVBP)                   |                               |          |                       |       |
| Yield curves (USD) parallel shift+1bp                     | (349)                         | (12)     | (18,027)              | (621) |
| Yield curves (HKD) parallel shift+1bp                     | -                             | -        | (30)                  | (1)   |
| Yield curves (JPY) parallel shift+1bp                     | -                             | -        | (1)                   | -     |
| Yield curves (NTD) parallel shift+1bp                     | (771)                         | (27)     | (8,373)               | (288) |
| Equity securities price factor sensitivity (Equity Delta) | -                             | -        | 68,397                | 2,354 |

#### 4. Credit risk

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

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

The Bank maintains a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and the Bank retains the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

The management procedure and measurement methodology of credit risk in the Bank's main business are as follows:

Credit business (including the loan commitments and guarantees)

The category of credit asset and the grade of credit quality were narrated as follow:

(1) Category of credit risk

The credit risk of the Bank was classified into five categories. Normal credit assets shall be classified as "Category One." The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five". For managing the default credits, the Bank established the regulations governing the procedure to deal with non-performing loans, non-accrual loans and bad debts.



(2) Grade of credit quality

The Bank sets the level of credit quality based on the characteristics and scale of business (such as establishing the internal rating model of credit risk, setting the credit rating table or relevant rules to classify) to proceed the risk management.

In order to measure the credit risk of the clients, the Bank employs the statistic methods and the professional judgement from the experts. The Bank develops the rating model of business credit after considering the clients' relevant information. The model shall be reviewed periodically to verify if the calculated results conformed to the reality and revised every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, the Bank also evaluates default risk of clients by using the credit rating scores developed by the Bank and the external due diligence services.

The credit quality of the Bank's corporate borrowers is classified as excellent, good, and average.

To ensure the reasonable estimated values of credit rating system's design, process, and relevant risk factors, the Bank executes the relevant verification and test in the model according to the actual default every year so that the calculated results will be close to actual default.

Due from and call loans to other banks

The Bank evaluates the counterparties' credit quality before transactions and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

(3) Hedge of credit risk and easing policy

A. Collateral

The Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collaterals. For ensure the creditor's rights, the Bank sets the scope available as collaterals and the procedures of appraising, managing, and disposing the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collaterals, and offset provisions to stipulate when a credit trigger event occurs, the Bank may reduce the limit, cut down the payback period, or deem all debts mature. Also, the Bank will use the deposits that the borrowers saved in the Bank to offset the liabilities to lower the credit risk.

Others non-credit business collaterals shall depend on the characteristics of the financial instruments. Only the asset-backed securities and other similar financial instruments are secured by an asset pool of financial instruments.

B. Limit of credit risk and control of credit risk concentration

To avoid the excessive risk concentration, the Bank limits the credit amounts of single counterparties and groups; the Bank also sets the investment guide and regulation of risk control of equity investment to restrict the investment limits of single person (company) or related company (group). Furthermore, the Bank establishes relevant regulations to control the concentration risk of assets, and sets the credit limits by industry, group, country, and stock types to monitor the credit concentration risk.

C. Net settlement agreement

The Bank usually settles by the gross balance, but signs contract with some counterparties to settle by net balance. If a default happens, the Bank will terminate all transactions with the counterparty and settle by net balance in order to lower the credit risk.

(4) The Bank's maximum exposures to credit risk

Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

| Off balance sheet items             | Maximum exposure to credit risk |              |               |              |
|-------------------------------------|---------------------------------|--------------|---------------|--------------|
|                                     | 2014.6.30                       |              | 2013.12.31    |              |
|                                     | NT\$                            | US\$         | NT\$          | US\$         |
| Irrevocable loan commitments        | \$194,774,968                   | \$6,520,756  | \$165,615,358 | \$5,551,973  |
| Credit card commitments             | 451,861,633                     | 15,127,607   | 424,006,617   | 14,214,100   |
| Unused commercial letters of credit | 5,117,051                       | 171,311      | 3,202,955     | 107,374      |
| Guarantees on duties and contracts  | 10,191,506                      | 341,195      | 11,270,885    | 377,837      |
| Total                               | \$661,945,158                   | \$22,160,869 | \$604,095,815 | \$20,251,284 |

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| Off balance sheet items             | Maximum exposure to credit risk |                     |                      |                     |
|-------------------------------------|---------------------------------|---------------------|----------------------|---------------------|
|                                     | 2013.6.30                       |                     | 2013.1.1             |                     |
|                                     | NT\$                            | US\$                | NT\$                 | US\$                |
| Irrevocable loan commitments        | \$63,943,341                    | \$2,134,291         | \$34,415,264         | \$1,184,691         |
| Credit card commitments             | 338,520,949                     | 11,299,097          | 328,719,949          | 11,315,661          |
| Unused commercial letters of credit | 3,695,483                       | 123,347             | 4,281,218            | 147,374             |
| Guarantees on duties and contracts  | 10,711,299                      | 357,520             | 12,081,454           | 415,885             |
| <b>Total</b>                        | <b>\$416,871,072</b>            | <b>\$13,914,255</b> | <b>\$379,497,885</b> | <b>\$13,063,611</b> |

The management deems the Bank are able to control and minimize the credit risk exposures in off-balance-sheet items as the Bank and its subsidiaries use more strict rating procedures when extending credits and conduct reviews regularly.

(5) Credit risk concentration of the Bank

While the counterparties are obviously the same party, or there are several counterparties but all engage in similar business activities and share similar economic characteristics, so they are vulnerable to the same economic impacts or other changes, the credit risk concentration is apparent.

Credit risk concentration of the Bank derives from the assets, liabilities and off-balance-sheet items, and arise from performing obligations or engaging in transactions or cross-line portfolio of risk exposures including credit extension, due from and call loans to other banks, securities investment, receivables and derivatives. The Bank and its subsidiaries do not significantly concentrate on a single client or counterparty, and the transaction amount with a single client or counterparty accounted for the Bank's total bills discounts and loans and overdue receivables is not significant. Discounts and loans, guarantees, bills purchased, and acceptances receivable of the Bank according to industry, country and collateral are listed below:

| Item                                 | 2014.6.30              |                     |               | 2013.12.31             |                     |               |
|--------------------------------------|------------------------|---------------------|---------------|------------------------|---------------------|---------------|
|                                      | NT\$                   | US\$                | %             | NT\$                   | US\$                | %             |
| Industry type                        |                        |                     |               |                        |                     |               |
| Manufacturing                        | \$130,444,272          | \$4,367,066         | 11.68         | \$96,540,387           | \$3,236,352         | 9.28          |
| Financial institutions and insurance | 40,307,461             | 1,349,429           | 3.61          | 28,278,802             | 947,999             | 2.72          |
| Leasing and real estate              | 86,744,959             | 2,904,083           | 7.77          | 81,321,809             | 2,726,175           | 7.82          |
| Individuals                          | 516,535,988            | 17,292,802          | 46.25         | 476,121,752            | 15,961,172          | 45.79         |
| Others                               | 342,668,474            | 11,471,995          | 30.69         | 357,535,499            | 11,985,769          | 34.39         |
| <b>Total</b>                         | <b>\$1,116,701,154</b> | <b>\$37,385,375</b> | <b>100.00</b> | <b>\$1,039,798,249</b> | <b>\$34,857,467</b> | <b>100.00</b> |

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| Item                                 | 2013.6.30              |                     |               | 2013.1.1               |                     |               |
|--------------------------------------|------------------------|---------------------|---------------|------------------------|---------------------|---------------|
|                                      | NT\$                   | US\$                | %             | NT\$                   | US\$                | %             |
| Industry type                        |                        |                     |               |                        |                     |               |
| Manufacturing                        | \$103,263,844          | \$3,446,724         | 10.26         | \$119,509,896          | \$4,113,938         | 11.81         |
| Financial institutions and insurance | 31,345,861             | 1,046,257           | 3.11          | 29,845,385             | 1,027,380           | 2.95          |
| Leasing and real estate              | 79,761,137             | 2,662,254           | 7.92          | 83,250,987             | 2,865,782           | 8.22          |
| Individuals                          | 483,843,546            | 16,149,651          | 48.05         | 491,308,474            | 16,912,512          | 48.54         |
| Others                               | 308,659,953            | 10,302,402          | 30.66         | 288,275,903            | 9,923,439           | 28.48         |
| Total                                | <u>\$1,006,874,341</u> | <u>\$33,607,288</u> | <u>100.00</u> | <u>\$1,012,190,645</u> | <u>\$34,843,051</u> | <u>100.00</u> |

| Item              | 2014.6.30              |                     |               | 2013.12.31             |                     |               |
|-------------------|------------------------|---------------------|---------------|------------------------|---------------------|---------------|
|                   | NT\$                   | US\$                | %             | NT\$                   | US\$                | %             |
| Geographic Region |                        |                     |               |                        |                     |               |
| Domestic          | \$926,945,158          | \$31,032,647        | 83.01         | \$880,438,791          | \$29,515,212        | 84.68         |
| Asia              | 83,228,080             | 2,786,343           | 7.45          | 68,771,004             | 2,305,431           | 6.61          |
| America           | 27,515,484             | 921,175             | 2.46          | 23,009,706             | 771,361             | 2.21          |
| Others            | 79,012,432             | 2,645,210           | 7.08          | 67,578,748             | 2,265,463           | 6.50          |
| Total             | <u>\$1,116,701,154</u> | <u>\$37,385,375</u> | <u>100.00</u> | <u>\$1,039,798,249</u> | <u>\$34,857,467</u> | <u>100.00</u> |

| Item              | 2013.6.30              |                     |               | 2013.1.1               |                     |               |
|-------------------|------------------------|---------------------|---------------|------------------------|---------------------|---------------|
|                   | NT\$                   | US\$                | %             | NT\$                   | US\$                | %             |
| Geographic Region |                        |                     |               |                        |                     |               |
| Domestic          | \$860,353,954          | \$28,716,754        | 85.45         | \$876,857,475          | \$30,184,422        | 86.63         |
| Asia              | 61,397,425             | 2,049,314           | 6.10          | 55,874,621             | 1,923,395           | 5.52          |
| America           | 23,460,756             | 783,069             | 2.33          | 22,560,687             | 776,616             | 2.23          |
| Others            | 61,662,206             | 2,058,151           | 6.12          | 56,897,862             | 1,958,618           | 5.62          |
| Total             | <u>\$1,006,874,341</u> | <u>\$33,607,288</u> | <u>100.00</u> | <u>\$1,012,190,645</u> | <u>\$34,843,051</u> | <u>100.00</u> |

(6) Credit quality analysis of the financial assets

Some of the financial assets held by the Bank, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit and loss, securities purchased under agreements to resell, refundable deposits, operating deposits and settlements fund, are excluded from this analysis since the counterparty is normally with good credit quality and is considered as low credit risk.

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In addition to all of the above, the credit quality analysis of the financial assets was shown as follows:

A. Credit quality analysis to loans and receivables of the Bank

| 2014.6.30<br>(NT\$)    | Neither past due nor impaired |             |             |               | Past due but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Impairment allowances (D)                                 |  | Net balance<br>(A)+(B)+(C)-(D) |
|------------------------|-------------------------------|-------------|-------------|---------------|-------------------------------------|--------------|----------------------|---|--|--------------------------------|
|                        | Excellent                     | Good        | Average     | Subtotal (A)  |                                     |              |                      | With objective<br>evidence of<br>impairment<br>individual | Without objective<br>evidence of<br>impairment<br>individual |                                |
| Receivables            |                               |             |             |               |                                     |              |                      |   |  |                                |
| Credit card            |                               |             |             |               |                                     |              |                      |   |  |                                |
| business               | \$38,194,069                  | \$8,281,904 | \$2,976,427 | \$49,452,400  | \$120,120                           | \$139,466    | \$49,711,986         | \$114,642   | \$1,534,868  | \$48,062,476                   |
| Others                 | 31,854,638                    | 3,744,584   | 108,142     | 35,707,364    | 8,348                               | 41,986       | 35,757,698           | 12,584  | 345,033  | 35,400,081                     |
| Discounts and<br>loans | 664,031,977                   | 374,527,724 | 42,147,012  | 1,080,706,713 | 828,942                             | 23,729,606   | 1,105,265,261        | 4,810,198   | 10,063,369   | 1,090,391,694                  |

| 2014.6.30<br>(US\$)    | Neither past due nor impaired |            |           |              | Past due but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Impairment allowances (D)                                 |  | Net balance<br>(A)+(B)+(C)-(D) |
|------------------------|-------------------------------|------------|-----------|--------------|-------------------------------------|--------------|----------------------|---|--|--------------------------------|
|                        | Excellent                     | Good       | Average   | Subtotal (A) |                                     |              |                      | With objective<br>evidence of<br>impairment<br>individual | Without objective<br>evidence of<br>impairment<br>individual |                                |
| Receivables            |                               |            |           |              |                                     |              |                      |   |  |                                |
| Credit card            |                               |            |           |              |                                     |              |                      |   |  |                                |
| business               | \$1,278,677                   | \$277,265  | \$99,646  | \$1,655,588  | \$4,021                             | \$4,669      | \$1,664,278          | \$3,838   | \$51,385   | \$1,609,055                    |
| Others                 | 1,066,442                     | 125,363    | 3,620     | 1,195,425    | 280                                 | 1,406        | 1,197,111            | 422   | 11,551   | 1,185,138                      |
| Discounts and<br>loans | 22,230,733                    | 12,538,591 | 1,411,015 | 36,180,339   | 27,751                              | 794,429      | 37,002,519           | 161,038   | 336,905  | 36,504,576                     |

| 2013.12.31<br>(NT\$)   | Neither past due nor impaired |             |             |               | Past due but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Impairment allowances (D)                                 |  | Net balance<br>(A)+(B)+(C)-(D) |
|------------------------|-------------------------------|-------------|-------------|---------------|-------------------------------------|--------------|----------------------|---|--|--------------------------------|
|                        | Excellent                     | Good        | Average     | Subtotal (A)  |                                     |              |                      | With objective<br>evidence of<br>impairment<br>individual | Without objective<br>evidence of<br>impairment<br>individual |                                |
| Receivables            |                               |             |             |               |                                     |              |                      |   |  |                                |
| Credit card            |                               |             |             |               |                                     |              |                      |   |  |                                |
| business               | \$30,215,292                  | \$7,679,461 | \$3,204,791 | \$41,099,544  | \$130,931                           | \$151,472    | \$41,381,947         | \$125,544   | \$1,609,517  | \$39,646,886                   |
| Others                 | 78,545,653                    | 2,093,766   | 50,342      | 80,689,761    | 4,113                               | 58,573       | 80,752,447           | 18,918  | 328,925  | 80,404,604                     |
| Discounts and<br>loans | 673,932,410                   | 280,367,699 | 46,809,038  | 1,001,109,147 | 540,461                             | 25,477,428   | 1,027,127,036        | 4,267,369   | 10,119,032   | 1,012,740,635                  |

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| 2013.12.31<br>(US\$)    | Neither past due nor impaired |           |           |              | Past due but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Impairment allowances (D)                                 |  | Net balance<br>(A)+(B)+(C)-(D) |
|-------------------------|-------------------------------|-----------|-----------|--------------|-------------------------------------|--------------|----------------------|---|--|--------------------------------|
|                         | Excellent                     | Good      | Average   | Subtotal (A) |                                     |              |                      | With objective<br>evidence of<br>impairment<br>individual | Without objective<br>evidence of<br>impairment<br>individual |                                |
| Receivables             |                               |           |           |              |                                     |              |                      |   |  |                                |
| Credit card<br>business | \$1,012,916                   | \$257,441 | \$107,435 | \$1,377,792  | \$4,389                             | \$5,078      | \$1,387,259          | \$4,209   | \$53,956   | \$1,329,094                    |
| Others                  | 2,633,109                     | 70,190    | 1,688     | 2,704,987    | 138                                 | 1,963        | 2,707,088            | 634   | 11,027   | 2,695,427                      |
| Discounts and<br>loans  | 22,592,438                    | 9,398,850 | 1,569,193 | 33,560,481   | 18,118                              | 854,087      | 34,432,686           | 143,056   | 339,223  | 33,950,407                     |

| 2013.6.30<br>(NT\$)     | Neither past due nor impaired |             |             |              | Past due but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Impairment allowances (D)                                 |  | Net balance<br>(A)+(B)+(C)-(D) |
|-------------------------|-------------------------------|-------------|-------------|--------------|-------------------------------------|--------------|----------------------|---|--|--------------------------------|
|                         | Excellent                     | Good        | Average     | Subtotal (A) |                                     |              |                      | With objective<br>evidence of<br>impairment<br>individual | Without objective<br>evidence of<br>impairment<br>individual |                                |
| Receivables             |                               |             |             |              |                                     |              |                      |   |  |                                |
| Credit card<br>business | \$30,634,215                  | \$5,952,062 | \$2,873,727 | \$39,460,004 | \$107,001                           | \$132,166    | \$39,699,171         | \$109,865   | \$1,662,817  | \$37,926,489                   |
| Others                  | 42,883,644                    | 3,697,142   | 43,019      | 46,623,805   | 3,307                               | 58,860       | 46,685,972           | 14,230  | 154,573  | 46,517,169                     |
| Discounts and<br>loans  | 667,718,404                   | 257,848,115 | 38,485,944  | 964,052,463  | 632,758                             | 29,711,197   | 994,396,418          | 4,717,165   | 9,415,788  | 980,263,465                    |

| 2013.6.30<br>(US\$)     | The parts amount of neither past |           |           |              | Past due but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Impairment allowances (D)                                 |  | Net balance<br>(A)+(B)+(C)-(D) |
|-------------------------|----------------------------------|-----------|-----------|--------------|-------------------------------------|--------------|----------------------|---|--|--------------------------------|
|                         | Excellent                        | Good      | Average   | Subtotal (A) |                                     |              |                      | With objective<br>evidence of<br>impairment<br>individual | Without objective<br>evidence of<br>impairment<br>individual |                                |
| Receivables             |                                  |           |           |              |                                     |              |                      |   |  |                                |
| Credit card<br>business | \$1,022,504                      | \$198,667 | \$95,919  | \$1,317,090  | \$3,571                             | \$4,411      | \$1,325,072          | \$3,667   | \$55,501   | \$1,265,904                    |
| Others                  | 1,431,363                        | 123,403   | 1,436     | 1,556,202    | 110                                 | 1,965        | 1,558,277            | 475   | 5,160  | 1,552,642                      |
| Discounts and<br>loans  | 22,286,996                       | 8,606,412 | 1,284,578 | 32,177,986   | 21,120                              | 991,696      | 33,190,802           | 157,449   | 314,278  | 32,719,075                     |

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| 2013.1.1<br>(NT\$)     | Neither past due nor impaired |             |             |              | Past due but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Impairment allowances (D)                                 |  | Net balance<br>(A)+(B)+(C)-(D) |
|------------------------|-------------------------------|-------------|-------------|--------------|-------------------------------------|--------------|----------------------|---|--|--------------------------------|
|                        | Excellent                     | Good        | Average     | Subtotal (A) |                                     |              |                      | With objective<br>evidence of<br>impairment<br>individual | Without objective<br>evidence of<br>impairment<br>individual |                                |
| Receivables            |                               |             |             |              |                                     |              |                      |   |  |                                |
| Credit card            |                               |             |             |              |                                     |              |                      |   |  |                                |
| business               | \$26,857,133                  | \$6,221,934 | \$2,874,072 | \$35,953,139 | \$111,701                           | \$127,992    | \$36,192,832         | \$108,337   | \$1,798,623  | \$34,285,872                   |
| Others                 | 15,398,473                    | 1,046,175   | 47,366      | 16,492,014   | 5,871                               | 49,694       | 16,547,579           | 7,801   | 91,694   | 16,448,084                     |
| Discounts and<br>loans | 670,693,846                   | 255,821,555 | 44,369,776  | 970,885,177  | 816,751                             | 26,753,925   | 998,455,853          | 3,838,785   | 9,198,147  | 985,418,921                    |

| 2013.1.1<br>(US\$)     | Neither past due nor impaired |           |           |              | Past due but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Impairment allowances (D)                                 |  | Net balance<br>(A)+(B)+(C)-(D) |
|------------------------|-------------------------------|-----------|-----------|--------------|-------------------------------------|--------------|----------------------|---|--|--------------------------------|
|                        | Excellent                     | Good      | Average   | Subtotal (A) |                                     |              |                      | With objective<br>evidence of<br>impairment<br>individual | Without objective<br>evidence of<br>impairment<br>individual |                                |
| Receivables            |                               |           |           |              |                                     |              |                      |   |  |                                |
| Credit card            |                               |           |           |              |                                     |              |                      |   |  |                                |
| business               | \$924,514                     | \$214,180 | \$98,936  | \$1,237,630  | \$3,845                             | \$4,406      | \$1,245,881          | \$3,729   | \$61,915   | \$1,180,237                    |
| Others                 | 530,068                       | 36,013    | 1,630     | 567,711      | 202                                 | 1,711        | 569,624              | 269   | 3,156  | 566,199                        |
| Discounts and<br>loans | 23,087,568                    | 8,806,250 | 1,527,359 | 33,421,177   | 28,115                              | 920,961      | 34,370,253           | 132,144   | 316,632  | 33,921,477                     |

**B. The credit quality analysis on neither past due nor impaired discounts and loans**

| 2014.6.30            | Excellent            |                     | Good                 |                     | Average             |                    | Total                  |                     |
|----------------------|----------------------|---------------------|----------------------|---------------------|---------------------|--------------------|------------------------|---------------------|
|                      | NT\$                 | US\$                | NT\$                 | US\$                | NT\$                | US\$               | NT\$                   | US\$                |
| Consumer banking     |                      |                     |                      |                     |                     |                    |                        |                     |
| Residential mortgage |                      |                     |                      |                     |                     |                    |                        |                     |
| loans                | \$208,778,010        | \$6,989,555         | \$53,124,557         | \$1,778,525         | \$9,529,358         | \$319,028          | \$271,431,925          | \$9,087,108         |
| Unsecured personal   |                      |                     |                      |                     |                     |                    |                        |                     |
| loans                | 13,409,121           | 448,916             | 5,915,549            | 198,043             | 1,546,530           | 51,776             | 20,871,200             | 698,735             |
| Other                | 190,129,563          | 6,365,235           | 37,927,189           | 1,269,742           | 5,295,869           | 177,297            | 233,352,621            | 7,812,274           |
| Corporate banking    |                      |                     |                      |                     |                     |                    |                        |                     |
| Secured              | 42,545,385           | 1,424,352           | 160,527,464          | 5,374,204           | 15,121,836          | 506,254            | 218,194,685            | 7,304,810           |
| Unsecured            | 209,169,898          | 7,002,675           | 117,032,965          | 3,918,077           | 10,653,419          | 356,660            | 336,856,282            | 11,277,412          |
| <b>Total</b>         | <b>\$664,031,977</b> | <b>\$22,230,733</b> | <b>\$374,527,724</b> | <b>\$12,538,591</b> | <b>\$42,147,012</b> | <b>\$1,411,015</b> | <b>\$1,080,706,713</b> | <b>\$36,180,339</b> |

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| 2013.12.31           | Excellent            |                     | Good                 |                    | Average             |                    | Total                  |                     |
|----------------------|----------------------|---------------------|----------------------|--------------------|---------------------|--------------------|------------------------|---------------------|
|                      | NT\$                 | US\$                | NT\$                 | US\$               | NT\$                | US\$               | NT\$                   | US\$                |
| Consumer banking     |                      |                     |                      |                    |                     |                    |                        |                     |
| Residential mortgage |                      |                     |                      |                    |                     |                    |                        |                     |
| loans                | \$195,160,827        | \$6,542,435         | \$55,381,641         | \$1,856,575        | \$9,553,020         | \$320,249          | \$260,095,488          | \$8,719,259         |
| Unsecured personal   |                      |                     |                      |                    |                     |                    |                        |                     |
| loans                | 8,689,745            | 291,309             | 4,770,432            | 159,921            | 1,242,249           | 41,644             | 14,702,426             | 492,874             |
| Other                | 158,450,771          | 5,311,793           | 40,060,781           | 1,342,970          | 6,522,148           | 218,644            | 205,033,700            | 6,873,407           |
| Corporate banking    |                      |                     |                      |                    |                     |                    |                        |                     |
| Secured              | 97,204,460           | 3,258,614           | 85,057,423           | 2,851,405          | 23,265,825          | 779,947            | 205,527,708            | 6,889,966           |
| Unsecured            | 214,426,607          | 7,188,287           | 95,097,422           | 3,187,979          | 6,225,796           | 208,709            | 315,749,825            | 10,584,975          |
| <b>Total</b>         | <b>\$673,932,410</b> | <b>\$22,592,438</b> | <b>\$280,367,699</b> | <b>\$9,398,850</b> | <b>\$46,809,038</b> | <b>\$1,569,193</b> | <b>\$1,001,109,147</b> | <b>\$33,560,481</b> |

| 2013.6.30            | Excellent            |                     | Good                 |                    | Average             |                    | Total                |                     |
|----------------------|----------------------|---------------------|----------------------|--------------------|---------------------|--------------------|----------------------|---------------------|
|                      | NT\$                 | US\$                | NT\$                 | US\$               | NT\$                | US\$               | NT\$                 | US\$                |
| Consumer banking     |                      |                     |                      |                    |                     |                    |                      |                     |
| Residential mortgage |                      |                     |                      |                    |                     |                    |                      |                     |
| loans                | \$197,528,492        | \$6,593,074         | \$42,854,582         | \$1,430,393        | \$7,863,061         | \$262,452          | \$248,246,135        | \$8,285,919         |
| Unsecured personal   |                      |                     |                      |                    |                     |                    |                      |                     |
| loans                | 6,223,017            | 207,711             | 2,739,931            | 91,453             | 1,000,281           | 33,387             | 9,963,229            | 332,551             |
| Other                | 169,264,522          | 5,649,683           | 31,490,968           | 1,051,101          | 5,699,679           | 190,243            | 206,455,169          | 6,891,027           |
| Corporate banking    |                      |                     |                      |                    |                     |                    |                      |                     |
| Secured              | 117,956,529          | 3,937,134           | 86,570,986           | 2,889,552          | 15,230,682          | 508,367            | 219,758,197          | 7,335,053           |
| Unsecured            | 176,745,844          | 5,899,394           | 94,191,648           | 3,143,913          | 8,692,241           | 290,129            | 279,629,733          | 9,333,436           |
| <b>Total</b>         | <b>\$667,718,404</b> | <b>\$22,286,996</b> | <b>\$257,848,115</b> | <b>\$8,606,412</b> | <b>\$38,485,944</b> | <b>\$1,284,578</b> | <b>\$964,052,463</b> | <b>\$32,177,986</b> |

| 2013.1.1             | Excellent            |                     | Good                 |                    | Average             |                    | Total                |                     |
|----------------------|----------------------|---------------------|----------------------|--------------------|---------------------|--------------------|----------------------|---------------------|
|                      | NT\$                 | US\$                | NT\$                 | US\$               | NT\$                | US\$               | NT\$                 | US\$                |
| Consumer banking     |                      |                     |                      |                    |                     |                    |                      |                     |
| Residential mortgage |                      |                     |                      |                    |                     |                    |                      |                     |
| loans                | \$210,365,875        | \$7,241,510         | \$57,522,974         | \$1,980,137        | \$11,752,064        | \$404,546          | \$279,640,913        | \$9,626,193         |
| Unsecured personal   |                      |                     |                      |                    |                     |                    |                      |                     |
| loans                | 5,023,910            | 172,940             | 2,625,973            | 90,395             | 1,097,468           | 37,779             | 8,747,351            | 301,114             |
| Other                | 142,126,809          | 4,892,489           | 38,303,966           | 1,318,553          | 7,442,926           | 256,211            | 187,873,701          | 6,467,253           |
| Corporate banking    |                      |                     |                      |                    |                     |                    |                      |                     |
| Secured              | 119,997,846          | 4,130,735           | 78,926,054           | 2,716,904          | 17,549,751          | 604,122            | 216,473,651          | 7,451,761           |
| Unsecured            | 193,179,406          | 6,649,894           | 78,442,588           | 2,700,261          | 6,527,567           | 224,701            | 278,149,561          | 9,574,856           |
| <b>Total</b>         | <b>\$670,693,846</b> | <b>\$23,087,568</b> | <b>\$255,821,555</b> | <b>\$8,806,250</b> | <b>\$44,369,776</b> | <b>\$1,527,359</b> | <b>\$970,885,177</b> | <b>\$33,421,177</b> |



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C. Credit quality analysis on securities investment

| 2014.6.30<br>(NT\$)                                     | Neither past dur nor impaired |  |              | Past dur but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Accumulated<br>impairment<br>(D) | Net balance<br>(A)+(B)+(C)-(D) |
|---|-------------------------------|--|--------------|-------------------------------------|--------------|----------------------|----------------------------------|--------------------------------|
|   | Investment<br>grade           | Non-investment<br>grade and<br>non-credit rating | Subtotal (A) |                                     |              |                      |                                  |                                |
| Available-for-sale financial assets                     |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | \$48,780,208                  | \$1,053,743                                      | \$49,833,951 | \$-                                 | \$-          | \$49,833,951         | \$-                              | \$49,833,951                   |
| Stocks  | 2,981,432                     | 11,338,473                                       | 14,319,905   | -                                   | 163,785      | 14,483,690           | 163,785                          | 14,319,905                     |
| Others  | 57,713                        | 303,436  | 361,149      | -                                   | -            | 361,149              | -                                | 361,149                        |
| Held-to-maturity financial assets                       |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 49,449,328                    | 594,446  | 50,043,774   | -                                   | -            | 50,043,774           | -                                | 50,043,774                     |
| Investments in debt securities<br>with no active market |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 7,081,750                     | 174,534  | 7,256,284    | -                                   | 1,293,511    | 8,549,795            | 1,293,511                        | 7,256,284                      |
| Preferred stocks  | -                             | 549,730  | 549,730      | -                                   | -            | 549,730              | -                                | 549,730                        |
| Others  | 324,000,000                   | -  | 324,000,000  | -                                   | -            | 324,000,000          | -                                | 324,000,000                    |

| 2014.6.30<br>(US\$)                                     | Neither past dur nor impaired |  |              | Past dur but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Accumulated<br>impairment<br>(D) | Net balance<br>(A)+(B)+(C)-(D) |
|---|-------------------------------|--|--------------|-------------------------------------|--------------|----------------------|----------------------------------|--------------------------------|
|   | Investment<br>grade           | Non-investment<br>grade and<br>non-credit rating | Subtotal (A) |                                     |              |                      |                                  |                                |
| Available-for-sale financial assets                     |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | \$1,633,083                   | \$35,278   | \$1,668,361  | \$-                                 | \$-          | \$1,668,361          | \$-                              | \$1,668,361                    |
| Stocks  | 99,814                        | 379,594  | 479,408      | -                                   | 5,483        | 484,891              | 5,483                            | 479,408                        |
| Others  | 1,932                         | 10,159   | 12,091       | -                                   | -            | 12,091               | -                                | 12,091                         |
| Held-to-maturity financial assets                       |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 1,655,485                     | 19,901   | 1,675,386    | -                                   | -            | 1,675,386            | -                                | 1,675,386                      |
| Investments in debt securities<br>with no active market |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 237,086                       | 5,843  | 242,929      | -                                   | 43,305       | 286,234              | 43,305                           | 242,929                        |
| Preferred stocks  | -                             | 18,404   | 18,404       | -                                   | -            | 18,404               | -                                | 18,404                         |
| Others  | 10,847,004                    | -  | 10,847,004   | -                                   | -            | 10,847,004           | -                                | 10,847,004                     |

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| 2013.12.31<br>(NT\$)                                    | Neither past dur nor impaired |  |              | Past dur but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Accumulated<br>impairment<br>(D) | Net balance<br>(A)+(B)+(C)-(D) |
|---|-------------------------------|--|--------------|-------------------------------------|--------------|----------------------|----------------------------------|--------------------------------|
|   | Investment<br>grade           | Non-investment<br>grade and<br>non-credit rating | Subtotal (A) |                                     |              |                      |                                  |                                |
| Available-for-sale financial assets                     |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | \$49,647,356                  | \$2,239,679                                      | \$51,887,035 | \$-                                 | \$-          | \$51,887,035         | \$-                              | \$51,887,035                   |
| Stocks  | 4,545,008                     | 9,663,348  | 14,208,356   | -                                   | 163,785      | 14,372,141           | 163,785                          | 14,208,356                     |
| Others  | 100,148                       | 851,026  | 951,174      | -                                   | -            | 951,174              | -                                | 951,174                        |
| Held-to-maturity financial assets                       |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 50,117,106                    | 594,572  | 50,711,678   | -                                   | -            | 50,711,678           | -                                | 50,711,678                     |
| Investments in debt securities<br>with no active market |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 7,060,075                     | 362,208  | 7,422,283    | -                                   | 1,294,912    | 8,717,195            | 1,294,912                        | 7,422,283                      |
| Preferred stocks  | -                             | 549,730  | 549,730      | -                                   | -            | 549,730              | -                                | 549,730                        |
| Others  | 272,300,000                   | -  | 272,300,000  | -                                   | -            | 272,300,000          | -                                | 272,300,000                    |

| 2013.12.31<br>(US\$)                                    | Neither past dur nor impaired |  |              | Past dur but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Accumulated<br>impairment<br>(D) | Net balance<br>(A)+(B)+(C)-(D) |
|---|-------------------------------|--|--------------|-------------------------------------|--------------|----------------------|----------------------------------|--------------------------------|
|   | Investment<br>grade           | Non-investment<br>grade and<br>non-credit rating | Subtotal (A) |                                     |              |                      |                                  |                                |
| Available-for-sale financial assets                     |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | \$1,664,343                   | \$75,082   | \$1,739,425  | \$-                                 | \$-          | \$1,739,425          | \$-                              | \$1,739,425                    |
| Stocks  | 152,364                       | 323,947  | 476,311      | -                                   | 5,491        | 481,802              | 5,491                            | 476,311                        |
| Others  | 3,357                         | 28,529   | 31,886       | -                                   | -            | 31,886               | -                                | 31,886                         |
| Held-to-maturity financial assets                       |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 1,680,091                     | 19,932   | 1,700,023    | -                                   | -            | 1,700,023            | -                                | 1,700,023                      |
| Investments in debt securities<br>with no active market |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 236,677                       | 12,142   | 248,819      | -                                   | 43,410       | 292,229              | 43,410                           | 248,819                        |
| Preferred stocks  | -                             | 18,429   | 18,429       | -                                   | -            | 18,429               | -                                | 18,429                         |
| Others  | 9,128,394                     | -  | 9,128,394    | -                                   | -            | 9,128,394            | -                                | 9,128,394                      |

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| 2013.6.30<br>(NT\$)                                     | Neither past dur nor impaired |  |              | Past dur but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Accumulated<br>impairment<br>(D) | Net balance<br>(A)+(B)+(C)-(D) |
|---|-------------------------------|--|--------------|-------------------------------------|--------------|----------------------|----------------------------------|--------------------------------|
|   | Investment<br>grade           | Non-investment<br>grade and<br>non-credit rating | Subtotal (A) |                                     |              |                      |                                  |                                |
| Available-for-sale financial assets                     |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | \$42,201,211                  | \$2,209,208                                      | \$44,410,419 | \$-                                 | \$-          | \$44,410,419         | \$-                              | \$44,410,419                   |
| Stocks  | 4,142,286                     | 8,805,444  | 12,947,730   | -                                   | 189,435      | 13,137,165           | 189,435                          | 12,947,730                     |
| Others  | 154,584                       | 628,961  | 783,545      | -                                   | -            | 783,545              | -                                | 783,545                        |
| Held-to-maturity financial assets                       |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 48,197,659                    | 597,487  | 48,795,146   | -                                   | -            | 48,795,146           | -                                | 48,795,146                     |
| Investments in debt securities<br>with no active market |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 8,047,026                     | 639,366  | 8,686,392    | -                                   | 1,212,419    | 9,898,811            | 1,212,419                        | 8,686,392                      |
| Preferred stocks  | -                             | 549,730  | 549,730      | -                                   | -            | 549,730              | -                                | 549,730                        |
| Others  | 432,900,000                   | -  | 432,900,000  | -                                   | -            | 432,900,000          | -                                | 432,900,000                    |

| 2013.6.30<br>(US\$)                                     | Neither past dur nor impaired |  |              | Past dur but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Accumulated<br>impairment<br>(D) | Net balance<br>(A)+(B)+(C)-(D) |
|---|-------------------------------|--|--------------|-------------------------------------|--------------|----------------------|----------------------------------|--------------------------------|
|   | Investment<br>grade           | Non-investment<br>grade and<br>non-credit rating | Subtotal (A) |                                     |              |                      |                                  |                                |
| Available-for-sale financial assets                     |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | \$1,408,585                   | \$73,739   | \$1,482,324  | \$-                                 | \$-          | \$1,482,324          | \$-                              | \$1,482,324                    |
| Stocks  | 138,260                       | 293,907  | 432,167      | -                                   | 6,323        | 438,490              | 6,323                            | 432,167                        |
| Others  | 5,160                         | 20,993   | 26,153       | -                                   | -            | 26,153               | -                                | 26,153                         |
| Held-to-maturity financial assets                       |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 1,608,733                     | 19,943   | 1,628,676    | -                                   | -            | 1,628,676            | -                                | 1,628,676                      |
| Investments in debt securities<br>with no active market |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 268,592                       | 21,341   | 289,933      | -                                   | 40,468       | 330,401              | 40,468                           | 289,933                        |
| Preferred stocks  | -                             | 18,349   | 18,349       | -                                   | -            | 18,349               | -                                | 18,349                         |
| Others  | 14,449,266                    | -  | 14,449,266   | -                                   | -            | 14,449,266           | -                                | 14,449,266                     |

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| 2013.1.1<br>(NT\$)                                      | Neither past dur nor impaired |  |              | Past dur but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Accumulated<br>impairment<br>(D) | Net balance<br>(A)+(B)+(C)-(D) |
|---|-------------------------------|--|--------------|-------------------------------------|--------------|----------------------|----------------------------------|--------------------------------|
|   | Investment<br>grade           | Non-investment<br>grade and<br>non-credit rating | Subtotal (A) |                                     |              |                      |                                  |                                |
| Available-for-sale financial assets                     |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | \$48,134,737                  | \$2,029,777                                      | \$50,164,514 | \$-                                 | \$-          | \$50,164,514         | \$-                              | \$50,164,514                   |
| Stocks  | 4,542,271                     | 6,709,298  | 11,251,569   | -                                   | 438,311      | 11,689,880           | 438,311                          | 11,251,569                     |
| Others  | -                             | 1,770,324  | 1,770,324    | -                                   | -            | 1,770,324            | -                                | 1,770,324                      |
| Held-to-maturity financial assets                       |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 19,965,414                    | 577,456  | 20,542,870   | -                                   | -            | 20,542,870           | -                                | 20,542,870                     |
| Investments in debt securities<br>with no active market |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 12,637,782                    | 756,057  | 13,393,839   | -                                   | 1,273,827    | 14,667,666           | 1,273,733                        | 13,393,933                     |
| Preferred stocks  | -                             | 549,730  | 549,730      | -                                   | -            | 549,730              | -                                | 549,730                        |
| Others  | 410,100,000                   | -  | 410,100,000  | -                                   | -            | 410,100,000          | -                                | 410,100,000                    |

| 2013.1.1<br>(US\$)                                      | Neither past dur nor impaired |  |              | Past dur but<br>not impaired<br>(B) | Impaired (C) | Total<br>(A)+(B)+(C) | Accumulated<br>impairment<br>(D) | Net balance<br>(A)+(B)+(C)-(D) |
|---|-------------------------------|--|--------------|-------------------------------------|--------------|----------------------|----------------------------------|--------------------------------|
|   | Investment<br>grade           | Non-investment<br>grade and<br>non-credit rating | Subtotal (A) |                                     |              |                      |                                  |                                |
| Available-for-sale financial assets                     |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | \$1,656,962                   | \$69,872   | \$1,726,834  | \$-                                 | \$-          | \$1,726,834          | \$-                              | \$1,726,834                    |
| Stocks  | 156,360                       | 230,957  | 387,317      | -                                   | 15,088       | 402,405              | 15,088                           | 387,317                        |
| Others  | -                             | 60,940   | 60,940       | -                                   | -            | 60,940               | -                                | 60,940                         |
| Held-to-maturity financial assets                       |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 687,278                       | 19,878   | 707,156      | -                                   | -            | 707,156              | -                                | 707,156                        |
| Investments in debt securities<br>with no active market |                               |  |              |                                     |              |                      |                                  |                                |
| Bonds   | 435,036                       | 26,026   | 461,062      | -                                   | 43,849       | 504,911              | 43,846                           | 461,065                        |
| Preferred stocks  | -                             | 18,923   | 18,923       | -                                   | -            | 18,923               | -                                | 18,923                         |
| Others  | 14,117,040                    | -  | 14,117,040   | -                                   | -            | 14,117,040           | -                                | 14,117,040                     |

**D. Aging analysis on past due but not impaired financial assets of the Bank**

Past due but not impaired loans might result from some temporary administration reasons so the customers is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown otherwise, according to internal credit risk assets impairment evaluation guideline, a loan that is past due for no more than 30 days is typically not to be treated as impairment.

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| 2014.6.30                  | Less than 30 days |         | 31-60 days |         | Total     |         |
|----------------------------|-------------------|---------|------------|---------|-----------|---------|
|                            | NT\$              | US\$    | NT\$       | US\$    | NT\$      | US\$    |
| <b>Receivables</b>         |                   |         |            |         |           |         |
| Credit card business       | \$71,936          | \$2,408 | \$48,184   | \$1,613 | \$120,120 | \$4,021 |
| Others                     | 6,890             | 230     | 1,458      | 49      | 8,348     | 279     |
| <b>Discounts and loans</b> |                   |         |            |         |           |         |
| <b>Consumer banking</b>    |                   |         |            |         |           |         |
| Residential mortgage loans | 262,854           | 8,800   | 65,224     | 2,184   | 328,078   | 10,984  |
| Unsecured personal loans   | 27,171            | 910     | 15,099     | 505     | 42,270    | 1,415   |
| Others                     | 224,727           | 7,523   | 46,148     | 1,545   | 270,875   | 9,068   |
| <b>Corporate banking</b>   |                   |         |            |         |           |         |
| Secured                    | 9,000             | 301     | 4,901      | 164     | 13,901    | 465     |
| Unsecured                  | 169,808           | 5,685   | 4,010      | 134     | 173,818   | 5,819   |
| <hr/>                      |                   |         |            |         |           |         |
| 2013.12.31                 | Less than 30 days |         | 31-60 days |         | Total     |         |
|                            | NT\$              | US\$    | NT\$       | US\$    | NT\$      | US\$    |
| <b>Receivables</b>         |                   |         |            |         |           |         |
| Credit card business       | \$70,578          | \$2,366 | \$60,353   | \$2,023 | \$130,931 | \$4,389 |
| Others                     | 2,263             | 76      | 1,850      | 62      | 4,113     | 138     |
| <b>Discounts and loans</b> |                   |         |            |         |           |         |
| <b>Consumer banking</b>    |                   |         |            |         |           |         |
| Residential mortgage loans | 191,508           | 6,420   | 65,998     | 2,212   | 257,506   | 8,632   |
| Unsecured personal loans   | 19,377            | 650     | 9,937      | 333     | 29,314    | 983     |
| Others                     | 142,730           | 4,785   | 70,097     | 2,350   | 212,827   | 7,135   |
| <b>Corporate banking</b>   |                   |         |            |         |           |         |
| Secured                    | -                 | -       | 40,814     | 1,368   | 40,814    | 1,368   |
| <hr/>                      |                   |         |            |         |           |         |
| 2013.6.30                  | Less than 30 days |         | 31-60 days |         | Total     |         |
|                            | NT\$              | US\$    | NT\$       | US\$    | NT\$      | US\$    |
| <b>Receivables</b>         |                   |         |            |         |           |         |
| Credit card business       | \$67,011          | \$2,236 | \$39,990   | \$1,335 | \$107,001 | \$3,571 |
| Others                     | 2,268             | 76      | 1,039      | 34      | 3,307     | 110     |
| <b>Discounts and loans</b> |                   |         |            |         |           |         |
| <b>Consumer banking</b>    |                   |         |            |         |           |         |
| Residential mortgage loans | 233,563           | 7,796   | 50,038     | 1,670   | 283,601   | 9,466   |
| Unsecured personal loans   | 8,286             | 276     | 2,384      | 80      | 10,670    | 356     |
| Others                     | 135,796           | 4,532   | 62,670     | 2,092   | 198,466   | 6,624   |
| <b>Corporate banking</b>   |                   |         |            |         |           |         |
| Unsecured                  | -                 | -       | 140,021    | 4,674   | 140,021   | 4,674   |

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| 2013.1.1                   | Less than 30 days |         | 31-60 days |         | Total     |         |
|----------------------------|-------------------|---------|------------|---------|-----------|---------|
|                            | NT\$              | US\$    | NT\$       | US\$    | NT\$      | US\$    |
| <b>Receivables</b>         |                   |         |            |         |           |         |
| Credit card business       | \$67,641          | \$2,328 | \$44,060   | \$1,517 | \$111,701 | \$3,845 |
| Others                     | 4,123             | 142     | 1,748      | 60      | 5,871     | 202     |
| <b>Discounts and loans</b> |                   |         |            |         |           |         |
| <b>Consumer banking</b>    |                   |         |            |         |           |         |
| Residential mortgage loans | 375,157           | 12,914  | 92,963     | 3,200   | 468,120   | 16,114  |
| Unsecured personal loans   | 6,895             | 237     | 3,132      | 108     | 10,027    | 345     |
| Others                     | 239,662           | 8,250   | 94,270     | 3,245   | 333,932   | 11,495  |
| <b>Corporate banking</b>   |                   |         |            |         |           |         |
| Secured                    | 3,216             | 111     | -          | -       | 3,216     | 111     |
| Unsecured                  | 1,456             | 50      | -          | -       | 1,456     | 50      |

(7) Impairment analysis of financial assets

A. The Bank has recognized accumulated impairment loss for available-for-sale financial assets in the amount of NT\$163,785 (US\$5,483), NT\$163,785 (US\$5,491), NT\$189,435 (US\$6,323) and NT\$438,311 (US\$15,088) as of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, respectively, due to the existence of objective impairment evidence.

B. The Bank has recognized accumulated impairment loss for investments in debt securities with no active market in the amount of NT\$1,197,925 (US\$40,105), NT\$1,199,326 (US\$40,205), NT\$1,116,833 (US\$37,277) and NT\$1,167,518 (US\$40,190) as of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013 respectively, due to credit deterioration of securitization products and financial debentures.

The Bank has recognized accumulated impairment loss for investments in debt securities with no active market in the amount of NT\$95,586 (US\$3,200), NT\$95,586 (US\$3,204), NT\$95,586 (US\$3,190) and NT\$106,215 (US\$3,656) as of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013 respectively, due to the default on the convertible bonds.

C. The Bank's impairment assessment of discounts and loans and receivables, please refer to Notes VI.5 and Notes VI.6.

D. Foreclosed properties management policy

Foreclosed properties of the Bank were land and buildings. As of 30 June 2014, 31 December 2013, 30 June 2013 and 1 January 2013, the carrying amounts were NT\$0 (US\$0), NT\$0 (US\$0), NT\$29,311 (US\$978) and NT\$29,311 (US\$1,009), respectively, and were made provisioning for impairment at the end of financial reporting period.

Foreclosed properties will be sold when are available to sell. The proceeds are used to reduce or repay the outstanding claim. Foreclosed properties are classified under other assets in the consolidated balance sheets.

5. Liquidity risk

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

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

- (1) Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

A. Financial assets were held to manage liquidity risk

The Bank holds highly marketable and diverse financial assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets were held to manage liquidity risk including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit and loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets and investments in debt securities with no active market.

B. Maturity analysis of non-derivative financial liabilities

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

| 2014.6.30 (NT\$)   | 0-30 days    | 31-180 days  | 181 days -<br>1 year | Over 1 year | Total         |
|--|--------------|--------------|----------------------|-------------|---------------|
| Due to the Central Bank and call loans from banks          | \$29,205,550 | \$15,114,195 | \$17,682,849         | \$18,364    | \$62,020,958  |
| Funds borrowed from Central Bank and other banks           | 1,496,360    | -            | -                    | -           | 1,496,360     |
| Financial liabilities at fair value through profit or loss | -            | -            | 312,173              | -           | 312,173       |
| Securities sold under agreements to repurchase             | 62,218,235   | 661,540      | -                    | -           | 62,879,775    |
| Payables   | 4,917,173    | 1,350,269    | 3,311,038            | 2,771,894   | 12,350,374    |
| Deposits and remittances                                   | 266,864,506  | 681,799,655  | 610,728,319          | 70,287,395  | 1,629,679,875 |
| Financial debentures payable                               | -            | -            | -                    | 67,005,745  | 67,005,745    |
| Other capital outflow at maturity                          | 28,713,084   | 26,495,094   | 6,148,048            | 3,908,823   | 65,265,049    |

| 2014.6.30 (US\$)   | 0-30 days | 31-180 days | 181 days -<br>1 year | Over 1 year | Total       |
|--|-----------|-------------|----------------------|-------------|-------------|
| Due to the Central Bank and call loans from banks          | \$977,755 | \$505,999   | \$591,994            | \$615       | \$2,076,363 |
| Funds borrowed from Central Bank and other banks           | 50,096    | -           | -                    | -           | 50,096      |
| Financial liabilities at fair value through profit or loss | -         | -           | 10,451               | -           | 10,451      |
| Securities sold under agreements to repurchase             | 2,082,968 | 22,147      | -                    | -           | 2,105,115   |
| Payables   | 164,619   | 45,205      | 110,848              | 92,799      | 413,471     |
| Deposits and remittances                                   | 8,934,198 | 22,825,566  | 20,446,211           | 2,353,110   | 54,559,085  |
| Financial debentures payable                               | -         | -           | -                    | 2,243,246   | 2,243,246   |
| Other capital outflow at maturity                          | 961,268   | 887,014     | 205,827              | 130,861     | 2,184,970   |



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| 2013.12.31 (NT\$)  | 0-30 days    | 31-180 days | 181 days -<br>1 year | Over 1 year | Total         |
|--|--------------|-------------|----------------------|-------------|---------------|
| Due to the Central Bank and call loans from banks          | \$29,171,990 | \$9,424,870 | \$7,667,625          | \$4,516,515 | \$50,781,000  |
| Funds borrowed from Central Bank and other banks           | 1,497,640    | -           | -                    | -           | 1,497,640     |
| Financial liabilities at fair value through profit or loss | -            | -           | 500,298              | -           | 500,298       |
| Securities sold under agreements to repurchase             | 56,051,595   | 2,640,870   | 2,677                | -           | 58,695,142    |
| Payables   | 8,272,115    | 1,057,094   | 1,030,517            | 2,061,034   | 12,420,760    |
| Deposits and remittances                                   | 265,034,724  | 655,147,509 | 615,056,779          | 62,792,426  | 1,598,031,438 |
| Financial debentures payable                               | -            | -           | -                    | 52,064,160  | 52,064,160    |
| Other capital outflow at maturity                          | 16,425,665   | 13,555,552  | 4,233,144            | 2,053,266   | 36,267,627    |

| 2013.12.31 (US\$)  | 0-30 days | 31-180 days | 181 days -<br>1 year | Over 1 year | Total       |
|--|-----------|-------------|----------------------|-------------|-------------|
| Due to the Central Bank and call loans from banks          | \$977,941 | \$315,953   | \$257,044            | \$151,409   | \$1,702,347 |
| Funds borrowed from Central Bank and other banks           | 50,206    | -           | -                    | -           | 50,206      |
| Financial liabilities at fair value through profit or loss | -         | -           | 16,772               | -           | 16,772      |
| Securities sold under agreements to repurchase             | 1,879,034 | 88,531      | 90                   | -           | 1,967,655   |
| Payables   | 277,309   | 35,437      | 34,546               | 69,093      | 416,385     |
| Deposits and remittances                                   | 8,884,838 | 21,962,706  | 20,618,732           | 2,105,009   | 53,571,285  |
| Financial debentures payable                               | -         | -           | -                    | 1,745,362   | 1,745,362   |
| Other capital outflow at maturity                          | 550,642   | 454,427     | 141,909              | 68,832      | 1,215,810   |

| 2013.6.30 (NT\$)                                  | 0-30 days    | 31-180 days | 181 days -<br>1 year | Over 1 year | Total         |
|---|--------------|-------------|----------------------|-------------|---------------|
| Due to the Central Bank and call loans from banks | \$23,563,959 | \$8,260,029 | \$8,732,598          | \$70,674    | \$40,627,260  |
| Funds borrowed from Central Bank and other banks  | 1,506,153    | -           | -                    | -           | 1,506,153     |
| Securities sold under agreements to repurchase    | 55,485,851   | 950,689     | -                    | -           | 56,436,540    |
| Payables  | 15,360,863   | 1,166,090   | 3,947,504            | 2,419,875   | 22,894,332    |
| Deposits and remittances                          | 331,735,978  | 639,507,246 | 520,487,896          | 60,788,404  | 1,552,519,524 |
| Financial debentures payable                      | -            | -           | -                    | 52,064,099  | 52,064,099    |
| Other capital outflow at maturity                 | 7,824,096    | 9,034,595   | 1,785,116            | 1,996,493   | 20,640,300    |

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| 2013.6.30 (US\$)                                  | 0-30 days  | 31-180 days | 181 days -<br>1 year | Over 1 year | Total       |
|---|------------|-------------|----------------------|-------------|-------------|
| Due to the Central Bank and call loans from banks | \$786,514  | \$275,702   | \$291,475            | \$2,359     | \$1,356,050 |
| Funds borrowed from Central Bank and other banks  | 50,272     | -           | -                    | -           | 50,272      |
| Securities sold under agreements to repurchase    | 1,851,998  | 31,732      | -                    | -           | 1,883,730   |
| Payables  | 512,712    | 38,922      | 131,759              | 80,770      | 764,163     |
| Deposits and remittances                          | 11,072,630 | 21,345,369  | 17,372,760           | 2,028,985   | 51,819,744  |
| Financial debentures payable                      | -          | -           | -                    | 1,737,787   | 1,737,787   |
| Other capital outflow at maturity                 | 261,152    | 301,555     | 59,583               | 66,639      | 688,929     |

| 2013.1.1(NT\$)                                    | 0-30 days    | 31-180 days  | 181 days -<br>1 year | Over 1 year | Total         |
|---|--------------|--------------|----------------------|-------------|---------------|
| Due to the Central Bank and call loans from banks | \$25,883,672 | \$12,422,707 | \$13,630,818         | \$109,750   | \$52,046,947  |
| Funds borrowed from Central Bank and other banks  | -            | 1,456,954    | -                    | -           | 1,456,954     |
| Securities sold under agreements to repurchase    | 17,597,555   | 2,777,732    | -                    | -           | 20,375,287    |
| Payables  | 14,818,499   | 951,629      | 1,032,113            | 2,064,225   | 18,866,466    |
| Deposits and remittances                          | 360,040,039  | 590,081,222  | 515,784,166          | 56,739,824  | 1,522,645,251 |
| Financial debentures payable                      | -            | -            | -                    | 41,699,146  | 41,699,146    |
| Other capital outflow at maturity                 | 3,722,458    | 4,336,869    | -                    | 9,393,224   | 17,452,551    |

| 2013.1.1(US\$)                                    | 0-30 days  | 31-180 days | 181 days -<br>1 year | Over 1 year | Total       |
|---|------------|-------------|----------------------|-------------|-------------|
| Due to the Central Bank and call loans from banks | \$891,004  | \$427,632   | \$469,219            | \$3,778     | \$1,791,633 |
| Funds borrowed from Central Bank and other banks  | -          | 50,153      | -                    | -           | 50,153      |
| Securities sold under agreements to repurchase    | 605,768    | 95,619      | -                    | -           | 701,387     |
| Payables  | 510,103    | 32,758      | 35,529               | 71,058      | 649,448     |
| Deposits and remittances                          | 12,393,805 | 20,312,607  | 17,755,049           | 1,953,178   | 52,414,639  |
| Financial debentures payable                      | -          | -           | -                    | 1,435,427   | 1,435,427   |
| Other capital outflow at maturity                 | 128,139    | 149,290     | -                    | 323,347     | 600,776     |

(2) Maturity analysis of derivative financial liabilities

A. Net settled derivative financial instruments

Net settled derivatives engaged by the Bank include:

- (a) Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
- (b) Interest rate derivative instruments: swaptions, net settled interest rate swaps and other interest rate agreements.

The table below shows the net settled derivation financial instruments on time remaining until the contractual maturity date. Analysis of contractual maturity date helps to illustrate all derivative financial instruments listed in the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of net settled derivative financial liabilities was as follows:

| 2014.6.30 (NT\$)  | 0-30 days | 31-180 days | 181 days - 1year | Over 1 year   | Total         |
|---|-----------|-------------|------------------|---------------|---------------|
| Derivative financial liabilities at fair value through profit or loss |           |             |                  |               |               |
| - Foreign exchange derivative instruments                             | \$33,546  | \$13,742    | \$(118,547)      | \$(1,208,045) | \$(1,279,304) |
| - Interest rate derivative instruments                                | 18,652    | 49,419      | 103,014          | 5,111,570     | 5,282,655     |
| Total   | \$52,198  | \$63,161    | \$(15,533)       | \$3,903,525   | \$4,003,351   |

| 2014.6.30 (US\$)  | 0-30 days | 31-180 days | 181 days - 1year | Over 1 year | Total      |
|---|-----------|-------------|------------------|-------------|------------|
| Derivative financial liabilities at fair value through profit or loss |           |             |                  |             |            |
| - Foreign exchange derivative instruments                             | \$1,123   | \$460       | \$(3,969)        | \$(40,443)  | \$(42,829) |
| - Interest rate derivative instruments                                | 624       | 1,655       | 3,449            | 171,127     | 176,855    |
| Total   | \$1,747   | \$2,115     | \$(520)          | \$130,684   | \$134,026  |

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| 2013.12.31 (NT\$)   | 0-30 days        | 31-180 days      | 181 days -<br>1year | Over 1 year        | Total              |
|---|------------------|------------------|---------------------|--------------------|--------------------|
| Derivative financial liabilities at fair value through profit or loss |                  |                  |                     |                    |                    |
| - Foreign exchange derivative instruments                             | \$315,261        | \$471,071        | \$(53,722)          | \$2,722            | \$735,332          |
| - Interest rate derivative instruments                                | 434              | 20,450           | 55,428              | 3,745,737          | 3,822,049          |
| <b>Total</b>  | <b>\$315,695</b> | <b>\$491,521</b> | <b>\$1,706</b>      | <b>\$3,748,459</b> | <b>\$4,557,381</b> |

| 2013.12.31 (US\$)   | 0-30 days       | 31-180 days     | 181 days -<br>1year | Over 1 year      | Total            |
|---|-----------------|-----------------|---------------------|------------------|------------------|
| Derivative financial liabilities at fair value through profit or loss |                 |                 |                     |                  |                  |
| - Foreign exchange derivative instruments                             | \$10,569        | \$15,792        | \$(1,801)           | \$91             | \$24,651         |
| - Interest rate derivative instruments                                | 14              | 685             | 1,858               | 125,570          | 128,127          |
| <b>Total</b>  | <b>\$10,583</b> | <b>\$16,477</b> | <b>\$57</b>         | <b>\$125,661</b> | <b>\$152,778</b> |

| 2013.6.30 (NT\$)  | 0-30 days       | 31-180 days      | 181 days -<br>1year | Over 1 year        | Total              |
|---|-----------------|------------------|---------------------|--------------------|--------------------|
| Derivative financial liabilities at fair value through profit or loss |                 |                  |                     |                    |                    |
| - Foreign exchange derivative instruments                             | \$45,611        | \$225,378        | \$312,600           | \$(9,374)          | \$574,215          |
| - Interest rate derivative instruments                                | 5,959           | 8,420            | 45,867              | 2,178,465          | 2,238,711          |
| <b>Total</b>  | <b>\$51,570</b> | <b>\$233,798</b> | <b>\$358,467</b>    | <b>\$2,169,091</b> | <b>\$2,812,926</b> |

| 2013.6.30 (US\$)  | 0-30 days      | 31-180 days    | 181 days -<br>1year | Over 1 year     | Total           |
|---|----------------|----------------|---------------------|-----------------|-----------------|
| Derivative financial liabilities at fair value through profit or loss |                |                |                     |                 |                 |
| - Foreign exchange derivative instruments                             | \$1,522        | \$7,523        | \$10,434            | \$(313)         | \$19,166        |
| - Interest rate derivative instruments                                | 199            | 281            | 1,531               | 72,713          | 74,724          |
| <b>Total</b>  | <b>\$1,721</b> | <b>\$7,804</b> | <b>\$11,965</b>     | <b>\$72,400</b> | <b>\$93,890</b> |

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| 2013.1.1(NT\$)  | 0-30 days | 31-180 days | 181 days -<br>1 year | Over 1 year | Total       |
|---|-----------|-------------|----------------------|-------------|-------------|
| Derivative financial liabilities at fair value through profit or loss |           |             |                      |             |             |
| - Foreign exchange derivative instruments                             | \$57,407  | \$127,037   | \$103,663            | \$(1,353)   | \$286,754   |
| - Interest rate derivative instruments                                | 11,759    | 50,023      | 37,435               | 1,240,323   | 1,339,540   |
| Total   | \$69,166  | \$177,060   | \$141,098            | \$1,238,970 | \$1,626,294 |

| 2013.1.1(US\$)  | 0-30 days | 31-180 days | 181 days -<br>1 year | Over 1 year | Total    |
|---|-----------|-------------|----------------------|-------------|----------|
| Derivative financial liabilities at fair value through profit or loss |           |             |                      |             |          |
| - Foreign exchange derivative instruments                             | \$1,976   | \$4,373     | \$3,568              | \$(46)      | \$9,871  |
| - Interest rate derivative instruments                                | 405       | 1,722       | 1,289                | 42,696      | 46,112   |
| Total   | \$2,381   | \$6,095     | \$4,857              | \$42,650    | \$55,983 |

**B. Maturity analysis of gross settled derivative financial instruments**

Gross settled derivatives engaged by the Bank include:

- (a) Foreign exchange derivative instruments: currency futures and swaps;
- (b) Interest rate derivative instruments: cross currency swaps;
- (c) Credit derivative instruments: all derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event.

The contract maturity date is the basic element to understand the Bank's gross settled derivative instruments as at balance sheet dates. Maturity analysis of gross settled derivative financial liabilities was as follows:

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| 2014.6.30 (NT\$)  | 0-30 days   | 31-180 days   | 181 days -<br>1 year | Over 1 year | Total         |
|---|-------------|---------------|----------------------|-------------|---------------|
| Derivative financial liabilities at fair value through profit or loss |             |               |                      |             |               |
| - Foreign exchange derivative instruments                             |             |               |                      |             |               |
| - Cash outflow  | \$(823,813) | \$(1,437,502) | \$(252,730)          | \$618,463   | \$(1,895,582) |
| - Cash inflow   | 88,335      | 327,596       | 444,219              | 60,935      | 921,085       |
| - Interest rate derivative instruments                                |             |               |                      |             |               |
| - Cash outflow  | (112)       | (59,099)      | (124,923)            | (192,055)   | (376,189)     |
| - Cash inflow   | -           | -             | -                    | -           | -             |
| Cash outflow subtotal   | (823,925)   | (1,496,601)   | (377,653)            | 426,408     | (2,271,771)   |
| Cash inflow subtotal  | 88,335      | 327,596       | 444,219              | 60,935      | 921,085       |
| Net cash flow   | \$(735,590) | \$(1,169,005) | \$66,566             | \$487,343   | \$(1,350,686) |

| 2014.6.30 (US\$)  | 0-30 days  | 31-180 days | 181 days -<br>1 year | Over 1 year | Total      |
|---|------------|-------------|----------------------|-------------|------------|
| Derivative financial liabilities at fair value through profit or loss |            |             |                      |             |            |
| - Foreign exchange derivative instruments                             |            |             |                      |             |            |
| - Cash outflow  | \$(27,580) | \$(48,125)  | \$(8,461)            | \$20,705    | \$(63,461) |
| - Cash inflow   | 2,957      | 10,967      | 14,872               | 2,040       | 30,836     |
| - Interest rate derivative instruments                                |            |             |                      |             |            |
| - Cash outflow  | (4)        | (1,978)     | (4,182)              | (6,430)     | (12,594)   |
| - Cash inflow   | -          | -           | -                    | -           | -          |
| Cash outflow subtotal   | (27,584)   | (50,103)    | (12,643)             | 14,275      | (76,055)   |
| Cash inflow subtotal  | 2,957      | 10,967      | 14,872               | 2,040       | 30,836     |
| Net cash flow   | \$(24,627) | \$(39,136)  | \$2,229              | \$16,315    | \$(45,219) |

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| 2013.12.31 (NT\$)   | 0-30 days     | 31-180 days   | 181 days -<br>1 year | Over 1 year | Total         |
|---|---------------|---------------|----------------------|-------------|---------------|
| Derivative financial liabilities at fair value through profit or loss |               |               |                      |             |               |
| - Foreign exchange derivative instruments                             |               |               |                      |             |               |
| - Cash outflow  | \$(1,971,525) | \$(1,549,325) | \$(329,735)          | \$21,208    | \$(3,829,377) |
| - Cash inflow   | 72,633        | 80,445        | 75,659               | 13,976      | 242,713       |
| - Interest rate derivative instruments                                |               |               |                      |             |               |
| - Cash outflow  | 55,641        | 173,683       | 68,360               | 109,897     | 407,581       |
| - Cash inflow   | -             | -             | -                    | -           | -             |
| Cash outflow subtotal   | (1,915,884)   | (1,375,642)   | (261,375)            | 131,105     | (3,421,796)   |
| Cash inflow subtotal  | 72,633        | 80,445        | 75,659               | 13,976      | 242,713       |
| Net cash flow   | \$(1,843,251) | \$(1,295,197) | \$(185,716)          | \$145,081   | \$(3,179,083) |

| 2013.12.31 (US\$)   | 0-30 days  | 31-180 days | 181 days -<br>1 year | Over 1 year | Total       |
|---|------------|-------------|----------------------|-------------|-------------|
| Derivative financial liabilities at fair value through profit or loss |            |             |                      |             |             |
| - Foreign exchange derivative instruments                             |            |             |                      |             |             |
| - Cash outflow  | \$(66,092) | \$(51,938)  | \$(11,054)           | \$711       | \$128,373   |
| - Cash inflow   | 2,435      | 2,697       | 2,536                | 469         | 8,137       |
| - Interest rate derivative instruments                                |            |             |                      |             |             |
| - Cash outflow  | 1,865      | 5,822       | 2,292                | 3,684       | 13,663      |
| - Cash inflow   | -          | -           | -                    | -           | -           |
| Cash outflow subtotal   | (64,227)   | (46,116)    | (8,762)              | 4,395       | (114,710)   |
| Cash inflow subtotal  | 2,435      | 2,697       | 2,536                | 469         | 8,137       |
| Net cash flow   | \$(61,792) | \$(43,419)  | \$(6,226)            | \$4,864     | \$(106,573) |

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| 2013.6.30 (NT\$)  | 0-30 days     | 31-180 days   | 181 days -<br>1year | Over 1 year | Total         |
|---|---------------|---------------|---------------------|-------------|---------------|
| Derivative financial liabilities at fair value through profit or loss |               |               |                     |             |               |
| - Foreign exchange derivative instruments                             |               |               |                     |             |               |
| - Cash outflow  | \$(1,068,912) | \$(2,039,607) | \$(771,745)         | \$(49,953)  | \$(3,930,217) |
| - Cash inflow   | 155,330       | 152,202       | 270,423             | 59,846      | 637,801       |
| - Interest rate derivative instruments                                |               |               |                     |             |               |
| - Cash outflow  | -             | (28,546)      | (360,532)           | (103,293)   | (492,371)     |
| - Cash inflow   | -             | -             | -                   | -           | -             |
| Cash outflow subtotal   | (1,068,912)   | (2,068,153)   | (1,132,277)         | (153,246)   | (4,422,588)   |
| Cash inflow subtotal  | 155,330       | 152,202       | 270,423             | 59,846      | 637,801       |
| Net cash flow   | \$(913,582)   | \$(1,915,951) | \$(861,854)         | \$(93,400)  | \$(3,784,787) |

| 2013.6.30 (US\$)  | 0-30 days  | 31-180 days | 181 days -<br>1year | Over 1 year | Total       |
|---|------------|-------------|---------------------|-------------|-------------|
| Derivative financial liabilities at fair value through profit or loss |            |             |                     |             |             |
| - Foreign exchange derivative instruments                             |            |             |                     |             |             |
| - Cash outflow  | \$(35,678) | \$(68,077)  | \$(25,759)          | \$(1,668)   | \$(131,182) |
| - Cash inflow   | 5,185      | 5,080       | 9,026               | 1,997       | 21,288      |
| - Interest rate derivative instruments                                |            |             |                     |             |             |
| - Cash outflow  | -          | (953)       | (12,034)            | (3,447)     | (16,434)    |
| - Cash inflow   | -          | -           | -                   | -           | -           |
| Cash outflow subtotal   | (35,678)   | (69,030)    | (37,793)            | (5,115)     | (147,616)   |
| Cash inflow subtotal  | 5,185      | 5,080       | 9,026               | 1,997       | 21,288      |
| Net cash flow   | \$(30,493) | \$(63,950)  | \$(28,767)          | \$(3,118)   | \$(126,328) |



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| 2013.1.1(NT\$)  | 0-30 days     | 30-180 days   | 181 days -<br>1 year | Over 1 year | Total         |
|---|---------------|---------------|----------------------|-------------|---------------|
| Derivative financial liabilities at fair value through profit or loss |               |               |                      |             |               |
| - Foreign exchange derivative instruments                             |               |               |                      |             |               |
| - Cash outflow  | \$(1,029,082) | \$(1,271,583) | \$(273,293)          | \$(242,322) | \$(2,816,280) |
| - Cash inflow   | 77,581        | 223,841       | 180,734              | 19,235      | 501,391       |
| - Interest rate derivative instruments                                |               |               |                      |             |               |
| - Cash outflow  | -             | (19,228)      | (35,377)             | (178,560)   | (233,165)     |
| - Cash inflow   | -             | -             | -                    | -           | -             |
| Cash outflow subtotal   | (1,029,082)   | (1,290,811)   | (308,670)            | (420,882)   | (3,049,445)   |
| Cash inflow subtotal  | 77,581        | 223,841       | 180,734              | 19,235      | 501,391       |
| Net cash flow   | \$(951,501)   | \$(1,066,970) | \$(127,936)          | \$(401,647) | \$(2,548,054) |

| 2013.1.1(US\$)  | 0-30 days  | 31-180 days | 181 days -<br>1 year | Over 1 year | Total      |
|---|------------|-------------|----------------------|-------------|------------|
| Derivative financial liabilities at fair value through profit or loss |            |             |                      |             |            |
| - Foreign exchange derivative instruments                             |            |             |                      |             |            |
| - Cash outflow  | \$(35,425) | \$(43,772)  | \$(9,407)            | \$(8,342)   | \$(96,946) |
| - Cash inflow   | 2,671      | 7,705       | 6,221                | 662         | 17,259     |
| - Interest rate derivative instruments                                |            |             |                      |             |            |
| - Cash outflow  | -          | (662)       | (1,218)              | (6,146)     | (8,026)    |
| - Cash inflow   | -          | -           | -                    | -           | -          |
| Cash outflow subtotal   | (35,425)   | (44,434)    | (10,625)             | (14,488)    | (104,972)  |
| Cash inflow subtotal  | 2,671      | 7,705       | 6,221                | 662         | 17,259     |
| Net cash flow   | \$(32,754) | \$(36,729)  | \$(4,404)            | \$(13,826)  | \$(87,713) |

(3) Maturity analysis of off-balance sheet items

A. Irrevocable commitments include irrevocable loan commitments and credit card commitments.

B. Financial guarantee contracts: the Bank acts as a guarantor or an issuer of credit line in a financing guarantee agreement.

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C. Leasing commitments: the Bank acts as a lessor/lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

|                               | Not later than 1 year |             | 1~5 year      |             | Later than 5 year |             | Total         |              |
|-------------------------------|-----------------------|-------------|---------------|-------------|-------------------|-------------|---------------|--------------|
|                               | NT\$                  | US\$        | NT\$          | US\$        | NT\$              | US\$        | NT\$          | US\$         |
| 2014.6.30                     |                       |             |               |             |                   |             |               |              |
| Irrevocable commitments       | \$163,083,470         | \$5,459,775 | \$220,123,467 | \$7,369,383 | \$263,429,664     | \$8,819,205 | \$646,636,601 | \$21,648,363 |
| Financial guarantee contracts | 13,166,993            | 440,810     | 2,130,393     | 71,322      | 11,171            | 374         | 15,308,557    | 512,506      |
| Leasing commitments           |                       |             |               |             |                   |             |               |              |
| Non-cancellable operating     |                       |             |               |             |                   |             |               |              |
| lease payments                | 656,584               | 21,981      | 991,897       | 33,207      | 65,434            | 2,191       | 1,713,915     | 57,379       |
| Total                         | \$176,907,047         | \$5,922,566 | \$223,245,757 | \$7,473,912 | \$263,506,269     | \$8,821,770 | \$663,659,073 | \$22,218,248 |

|                               | Not later than 1 year |             | 1~5 year      |             | Later than 5 year |             | Total         |              |
|-------------------------------|-----------------------|-------------|---------------|-------------|-------------------|-------------|---------------|--------------|
|                               | NT\$                  | US\$        | NT\$          | US\$        | NT\$              | US\$        | NT\$          | US\$         |
| 2013.12.31                    |                       |             |               |             |                   |             |               |              |
| Irrevocable commitments       | \$209,239,328         | \$7,014,392 | \$125,932,919 | \$4,221,687 | \$254,449,728     | \$8,529,994 | \$589,621,975 | \$19,766,073 |
| Financial guarantee contracts | 13,695,430            | 459,116     | 763,290       | 25,588      | 15,120            | 507         | 14,473,840    | 485,211      |
| Leasing commitments           |                       |             |               |             |                   |             |               |              |
| Non-cancellable operating     |                       |             |               |             |                   |             |               |              |
| lease payments                | 597,184               | 20,020      | 740,153       | 24,812      | 63,081            | 2,115       | 1,400,418     | 46,947       |
| Total                         | \$223,531,942         | \$7,493,528 | \$127,436,362 | \$4,272,087 | \$254,527,929     | \$8,532,616 | \$605,496,233 | \$20,298,231 |

|                               | Not later than 1 year |           | 1~5 year     |             | Later than 5 year |             | Total         |              |
|-------------------------------|-----------------------|-----------|--------------|-------------|-------------------|-------------|---------------|--------------|
|                               | NT\$                  | US\$      | NT\$         | US\$        | NT\$              | US\$        | NT\$          | US\$         |
| 2013.6.30                     |                       |           |              |             |                   |             |               |              |
| Irrevocable commitments       | \$15,086,110          | \$503,542 | \$93,509,482 | \$3,121,144 | \$293,868,698     | \$9,808,702 | \$402,464,290 | \$13,433,388 |
| Financial guarantee contracts | 13,578,814            | 453,232   | 814,214      | 27,176      | 13,754            | 459         | 14,406,782    | 480,867      |
| Leasing commitments           |                       |           |              |             |                   |             |               |              |
| Non-cancellable operating     |                       |           |              |             |                   |             |               |              |
| lease payments                | 662,642               | 22,117    | 934,156      | 31,180      | 55,064            | 1,838       | 1,651,862     | 55,135       |
| Total                         | \$29,327,566          | \$978,891 | \$95,257,852 | \$3,179,500 | \$293,937,516     | \$9,810,999 | \$418,522,934 | \$13,969,390 |

|                               | Not later than 1 year |             | 1~5 year      |             | Later than 5 year |             | Total         |              |
|-------------------------------|-----------------------|-------------|---------------|-------------|-------------------|-------------|---------------|--------------|
|                               | NT\$                  | US\$        | NT\$          | US\$        | NT\$              | US\$        | NT\$          | US\$         |
| 2013.1.1                      |                       |             |               |             |                   |             |               |              |
| Irrevocable commitments       | \$58,419,184          | \$2,010,987 | \$136,578,962 | \$4,701,514 | \$168,137,067     | \$5,787,851 | \$363,135,213 | \$12,500,352 |
| Financial guarantee contracts | 15,532,327            | 534,676     | 821,920       | 28,293      | 8,425             | 290         | 16,362,672    | 563,259      |
| Leasing commitments           |                       |             |               |             |                   |             |               |              |
| Non-cancellable operating     |                       |             |               |             |                   |             |               |              |
| lease payments                | 553,733               | 19,061      | 553,135       | 19,041      | -                 | -           | 1,106,868     | 38,102       |
| Total                         | \$74,505,244          | \$2,564,724 | \$137,954,017 | \$4,748,848 | \$168,145,492     | \$5,788,141 | \$380,604,753 | \$13,101,713 |

6. Capital management

(1) Overview

A. The capital management objectives of the Bank are as follows:

- (a) The eligible capital of the Bank must conform to the regulatory capital requirements and achieve the minimum adequacy ratio. The calculation of the eligible capital and regulatory capital should follow the rules issued by the competent authority.
- (b) To assure the Bank possess sufficient capital to assume various risk, the Bank assess required capital for the portfolios and characteristics of risk and execute risk management through capital allocation to realize optimization of resources.

(2) Capital management procedures

- A. The Bank follow the guides and the spirit established by the Basel Committee on Banking Supervision, “The Banking Act of The Republic of China” and the local regulations governing the foreign operations to assess and monitor the capital adequacy ratio monthly. The information about capital adequacy ratio is reported to the competent authority quarterly.
- B. The Bank maintain the BIS (Bank for International Settlement) capital adequacy ratio at 8%, the minimum standard set by the competent authority. To implement capital management, the Bank consider not only the business development but also the revised regulation from the competent authority, significant fund operation and capital increase plan to evaluate the capital adequacy ratio. To enhance internal monitor efficiency, the Bank established an early-warning mechanism to reduce the impact of significant event, to maintain the capital adequacy ratio and to ensure the integrity of the capital structures.
- C. The risk management team is responsible for monitoring the regulatory capital of the Bank and its subsidiaries. The regulatory capital is divided into net Tier 1 Capital and net Tier 2 Capital listed as follows:
  - (a) Net Tier 1 Capital: The aggregate amount of net Common Equity Tier 1 and net additional Tier 1 Capital.

Net common equity tier 1 capital: Primarily consists of common equity minus intangibles assets (including goodwill), unamortized losses on sales of non-performing loans, deferred tax assets due to losses from the previous year and other statutory adjustments.

Net additional tier 1 capital: Consists of the aggregate amount of non-cumulative perpetual preferred stocks and non-cumulative perpetual subordinated debts, etc.

(b) Net Tier 2 Capital: Consists of cumulative perpetual preferred stocks, cumulative perpetual subordinated debts, revaluation increments, convertible bonds, operating reserves and allowance for uncollectible accounts.

D. According to “Regulations Governing the Capital Adequacy and Capital Category of Banks”, terms of risk-weighted assets are defined as follow:

(a) Total Risk-weighted Assets: The sum of the risk-weighted assets and the capital requirements for market risk and operational risk multiplied by 12.5. Those assets already deducted from the regulatory capital, however, shall be deducted from the total risk-weighted assets.

(b) Risk-weighted Assets for Credit Risk: The measurement of the risk of loss caused by the counterparty’s default. This risk measurement is expressed as the total of each of the bank’s transaction items on and off the balance sheet times a risk weight.

(c) The Capital Requirement for Market Risk: The capital required for assessed losses from the bank’s transaction items on and off the balance sheet arising from movements in market prices (interest rates, exchange rates, and stock prices etc.).

(d) The Capital Requirement for Operational Risk: The capital required for the risk of loss resulting from inadequate or failed internal process, people and systems or external events.

### (3) Regulatory capital ratio

Pursuant to of the Banking Act, the ratio of a bank’s eligible capital to its risk-weighted assets must not be lower than a certain ratio; if such ratio is lower than the prescribed ratio, the Bank’s ability to distribute cash earnings or repurchase its shares may be restricted by the regulatory.

As of 30 June 2014 and 2013, the ratio of the Bank’s eligible capital to its consolidated risk-weighted assets were 13.94% and 13.06%, respectively.

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7. The assets and liabilities managed under the Bank's trust in accordance with the Trust Enterprise Act

(1) In accordance with Article 17 of "Enforcement Rules of the Trust Enterprise Act", the balance sheet and income statement based on trust and details of trust properties are as follows:

Balance Sheet Based on Trust  
30 June 2014

|                    | Trust Assets         |                     | Trust Liabilities          |  |
|--------------------|----------------------|---------------------|----------------------------|--|
|                    | NT\$                 | US\$                | NT\$                       | US\$                                     |
| Bank deposits      | \$13,154,014         | \$440,376           | Custody securities payable | \$143,886,417 \$4,817,088                |
| Bonds              | 130,964,417          | 4,384,480           | Other liabilities          | 56 2                                     |
| Common stock       | 1,945,422            | 65,130              | Trust capital              | 357,808,385 11,978,854                   |
| Mutual funds       | 180,492,847          | 6,042,613           | Accumulated Losses         |  |
| Insurance product  | 2,433,370            | 81,465              | Earnings distribution      | (48,065) (1,609)                         |
| Real estate        |                      |                     | Net income                 | 36,590 1,225                             |
| Land               | 28,506,863           | 954,364             | Retained Losses            | (259,217) (8,678)                        |
| Buildings, net     | 40,816               | 1,366               |                            |  |
| Custody securities | 143,886,417          | 4,817,088           |                            |  |
| Total              | <u>\$501,424,166</u> | <u>\$16,786,882</u> | Total                      | <u>\$501,424,166</u> <u>\$16,786,882</u> |

Balance Sheet Based on Trust  
30 June 2013

|                    | Trust Assets         |                     | Trust Liabilities          |  |
|--------------------|----------------------|---------------------|----------------------------|--|
|                    | NT\$                 | US\$                | NT\$                       | US\$                                     |
| Bank deposits      | \$11,726,882         | \$391,418           | Custody securities payable | \$138,876,488 \$4,635,397                |
| Bonds              | 128,854,957          | 4,300,900           | Other liabilities          | 56 2                                     |
| Common stock       | 1,977,530            | 66,006              | Trust capital              | 334,663,111 11,170,331                   |
| Mutual funds       | 170,938,495          | 5,705,557           | Accumulated Losses         |  |
| Insurance product  | 2,204,740            | 73,589              | Earnings distribution      | (68,269) (2,279)                         |
| Real estate        |                      |                     | Net income                 | 24,179 807                               |
| Land               | 18,699,368           | 624,144             | Retained Losses            | (184,594) (6,162)                        |
| Buildings, net     | 32,511               | 1,085               |                            |  |
| Custody securities | 138,876,488          | 4,635,397           |                            |  |
| Total              | <u>\$473,310,971</u> | <u>\$15,798,096</u> | Total                      | <u>\$473,310,971</u> <u>\$15,798,096</u> |

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Income Statement Based on Trust

| Items                                    | 2014.1.1-2014.6.30 |         | 2013.1.1-2013.6.30 |       |
|--|--------------------|---------|--------------------|-------|
|  | NT\$               | US\$    | NT\$               | US\$  |
| Trust revenue                            |                    |         |                    |       |
| Interest income                          | \$24,668           | \$826   | \$22,530           | \$752 |
| Rental income                            | 168                | 6       | 168                | 6     |
| Cash dividend income                     | 400                | 13      | 2,755              | 92    |
| Investment income-bonds                  | 526                | 17      | -                  | -     |
| Investment income-stock                  | 680                | 23      | 3,487              | 116   |
| Investment income-funds                  | 22,959             | 769     | 9,008              | 301   |
| Investment income-beneficiary securities | 3,627              | 121     | -                  | -     |
| Subtotal                                 | 53,028             | 1,775   | 37,948             | 1,267 |
| Trust expense                            |                    |         |                    |       |
| Management fee                           | 6,395              | 214     | 5,847              | 195   |
| Supervisor fee                           | 506                | 17      | 160                | 5     |
| Taxes                                    | 2,053              | 69      | 887                | 30    |
| Processing fee                           | 622                | 21      | 861                | 29    |
| Investment loss-stock                    | 190                | 6       | 1,831              | 61    |
| Investment loss-funds                    | 6627               | 222     | 4,183              | 140   |
| Other expenses                           | 45                 | 1       | -                  | -     |
| Subtotal                                 | 16,438             | 550     | 13,769             | 460   |
| Income equalization                      | -                  | -       | -                  | -     |
| Net income before tax                    | 36,590             | 1,225   | 24,179             | 807   |
| Net income                               | \$36,590           | \$1,225 | \$24,179           | \$807 |

Details of Trust Properties

| Items              | 2014.6.30     |              | 2013.6.30     |              |
|--------------------|---------------|--------------|---------------|--------------|
|                    | NT\$          | US\$         | NT\$          | US\$         |
| Bank deposits      | \$13,154,014  | \$440,375    | \$11,726,882  | \$391,418    |
| Bonds              | 130,964,417   | 4,384,480    | 128,854,957   | 4,300,900    |
| Common stock       | 1,945,422     | 65,130       | 1,977,530     | 66,006       |
| Mutual fund        | 180,492,847   | 6,042,613    | 170,938,495   | 5,705,557    |
| Insurance product  | 2,433,370     | 81,465       | 2,204,740     | 73,589       |
| Real estate        |               |              |               |              |
| Land               | 28,506,863    | 954,364      | 18,699,368    | 624,144      |
| Buildings, net     | 40,816        | 1,367        | 32,511        | 1,085        |
| Custody securities | 143,886,417   | 4,817,088    | 138,876,488   | 4,635,397    |
| Total              | \$501,424,166 | \$16,786,882 | \$473,310,971 | \$15,798,096 |

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(2) The Bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of 30 June 2014 and 2013 are as follows:

| Items  | 2014.6.30            |                     | 2013.6.30            |                     |
|--|----------------------|---------------------|----------------------|---------------------|
|  | NT\$                 | US\$                | NT\$                 | US\$                |
| Special trust of money that invest in foreign securities | \$264,888,803        | \$8,868,055         | \$252,621,097        | \$8,431,946         |
| Special trust money that invest in domestic securities   | 45,970,497           | 1,539,019           | 46,729,990           | 1,559,746           |
| Trust of money-custody securities                        | 143,886,417          | 4,817,088           | 138,876,488          | 4,635,397           |
| Trust of real estate                                     | 31,148,377           | 1,042,798           | 19,890,625           | 663,906             |
| Trust of real estate price                               | 5,410,200            | 181,125             | 5,166,055            | 172,432             |
| Trust of insurance claims                                | 124,246              | 4,160               | 120,128              | 4,010               |
| Personal and corporate trust                             | 5,960,024            | 199,532             | 5,677,427            | 189,500             |
| Trust of business employee's savings                     | 2,479,313            | 83,003              | 2,546,532            | 84,997              |
| Trust of securities                                      | 1,556,289            | 52,102              | 1,682,629            | 56,162              |
| Total  | <u>\$501,424,166</u> | <u>\$16,786,882</u> | <u>\$473,310,971</u> | <u>\$15,798,096</u> |

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

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

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

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

|                         | 2014.6.30   |          |               | 2013.12.31  |          |               |
|-------------------------|-------------|----------|---------------|-------------|----------|---------------|
|                         | Foreign     | Exchange | NTD           | Foreign     | Exchange | NTD           |
|                         | Currency    | Rate     |               | Currency    | Rate     |               |
| <u>Financial Assets</u> |             |          |               |             |          |               |
| <u>Monetary Items</u>   |             |          |               |             |          |               |
| USD                     | \$7,160,489 | 29.9150  | \$214,206,028 | \$6,430,332 | 29.9500  | \$192,588,443 |
| HKD                     | 4,438,158   | 3.8597   | 17,129,958    | 2,937,369   | 3.8627   | 11,346,175    |
| CNY                     | 20,459,400  | 4.8188   | 98,589,757    | 12,209,077  | 4.9431   | 60,350,689    |

Financial liabilities

Monetary Items

|     |           |         |             |           |         |             |
|-----|-----------|---------|-------------|-----------|---------|-------------|
| USD | 6,505,043 | 29.9150 | 194,598,361 | 6,710,333 | 29.9500 | 200,974,473 |
| CNY | 7,660,327 | 4.8188  | 36,913,584  | 6,031,058 | 4.9431  | 29,812,123  |
| AUD | 440,838   | 28.1246 | 12,398,392  | 421,709   | 26.7004 | 11,259,799  |

|                         | 2013.6.30   |          |               | 2013.1.1    |          |               |
|-------------------------|-------------|----------|---------------|-------------|----------|---------------|
|                         | Foreign     | Exchange | NTD           | Foreign     | Exchange | NTD           |
|                         | Currency    | Rate     |               | Currency    | Rate     |               |
| <u>Financial Assets</u> |             |          |               |             |          |               |
| <u>Monetary Items</u>   |             |          |               |             |          |               |
| USD                     | \$5,231,030 | 30.1200  | \$157,558,624 | \$5,120,798 | 29.1360  | \$149,199,571 |
| HKD                     | 3,250,397   | 3.8831   | 12,621,617    | 3,600,008   | 3.7586   | 13,530,990    |
| CNY                     | 6,315,591   | 4.9078   | 30,995,658    | 1,304,373   | 4.6794   | 6,103,683     |

Financial liabilities

Monetary Items

|     |           |         |             |           |         |             |
|-----|-----------|---------|-------------|-----------|---------|-------------|
| USD | 5,894,212 | 30.1200 | 177,533,665 | 6,087,435 | 29.1360 | 177,363,506 |
| CNY | 3,945,053 | 4.9078  | 19,361,531  | 1,774,508 | 4.6794  | 8,303,633   |
| AUD | 338,501   | 27.8866 | 9,439,642   | 183,671   | 30.2650 | 5,558,803   |

10. Accounting judgements

For the financial statements to provide more reliable and relevant information, the Bank changed the subsequent measurement voluntarily as of 2014. The investment property changes from the cost model to fair value model reflected the true value of the assets. After the retroactive application of this new accounting policy, its effects are summarized below:



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|  | 2013.12.31 |          | 2013.6.30          |         | 2013.1.1            |         |
|--|------------|----------|--------------------|---------|---------------------|---------|
|  | NT\$       | US\$     | NT\$               | US\$    | NT\$                | US\$    |
| Effect on the consolidated balance sheets                      |            |          |                    |         |                     |         |
| Increase in property and equipment, net                        | \$247,506  | \$8,297  | \$-                | \$-     | \$-                 | \$-     |
| Increase in assets held for sale, net                          | 13,471     | 452      | -                  | -       | -                   | -       |
| Increase in investment properties, net                         | 1,762,924  | 59,099   | 1,797,025          | 59,981  | 1,714,078           | 59,004  |
| Increase in deferred tax assets                                | 10,286     | 345      | 10,367             | 346     | 17,453              | 601     |
| Increase in tax liabilities                                    | 122,937    | 4,121    | 111,773            | 3,731   | 112,422             | 3,870   |
| Increase in retained earnings                                  | 1,765,271  | 59,178   | 1,695,619          | 56,596  | 1,619,109           | 55,735  |
| Increase in other equity                                       | 145,979    | 4,894    | -                  | -       | -                   | -       |
|  |            |          | 2014.4.1-2014.6.30 |         | 2013.4.1-2013.6.30  |         |
|  |            |          | NT\$               | US\$    | NT\$                | US\$    |
| Effects on the consolidated statements of comprehensive income |            |          |                    |         |                     |         |
| Increase in non-interest income                                |            |          | \$7,547            | \$253   | \$51,330            | \$1,713 |
| Decrease in operating expenses                                 |            |          | -                  | -       | 15,809              | 528     |
| Decrease in income tax expenses                                |            |          | (2,265)            | (76)    | (23,892)            | (797)   |
| Increase in net income   |            |          | 9,812              | 328     | 91,031              | 3,038   |
| Increase in other comprehensive income                         |            |          | -                  | -       | -                   | -       |
| Increase in earnings per share                                 |            |          | -                  | -       | 0.01                | 0.0003  |
|  |            |          | 2014.1.1-2014.6.30 |         | 2013.1.1-2013.12.31 |         |
|  |            |          | NT\$               | US\$    | NT\$                | US\$    |
| Effects on the consolidated statements of comprehensive income |            |          |                    |         |                     |         |
| Increase in non-interest income                                | \$7,611    | \$255    | \$104,438          | \$3,501 | \$51,330            | \$1,713 |
| Decrease in operating expenses                                 | -          | -        | 64,805             | 2,172   | 31,618              | 1,055   |
| Increase in income tax expenses                                | 42,559     | 1,425    | 23,081             | 774     | 6,438               | 215     |
| Increase (decrease) in net income                              | (34,948)   | (1,170)  | 146,162            | 4,900   | 76,510              | 2,554   |
| Increase in other comprehensive income                         | -          | -        | 145,979            | 4,894   | -                   | -       |
| Increase (decrease) in earnings per share                      | (0.01)     | (0.0003) | 0.02               | 0.0007  | 0.01                | 0.0003  |

11. Categories from past financial statements have been reorganized for analytic purposes.