Cathay United Bank and Subsidiaries
Consolidated Financial Statements
For The Years Ended
31 December 2015 and 2014
With Independent Auditors' Report

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated 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 consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

EY 安永
Building a better working world

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Report of Independent Auditors

English Translation of a Report Originally Issued in Chinese

The Board of Directors
Cathay United Bank

We have audited the accompanying consolidated balance sheets of Cathay United Bank and its subsidiaries as of 31 December 2015, 31 December 2014 and 1 January 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2015 and 2014. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

Based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of 31 December 2015, 31 December 2014 and 1 January 2014, and the consolidated financial performance and cash flows for the years then ended 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", the "Regulations Governing the Preparation of Financial Reports by Securities Firms", and "International Financial Reporting Standards", "International Accounting Standards", "Interpretations developed by the International Financial Reporting Interpretations Committee" as endorsed by the Financial Supervisory Commission of the Republic of China.

As described in Note 3 to the consolidated financial statements, the Bank and its subsidiaries prepared the financial reports in accordance with the International Financial Reporting Standards ("IFRS"), International Accounting Standards, and interpretations issued, revised or amended (excluding IFRS 9), which are recognized by the FSC and would be applicable for annual periods beginning on or after 1 January 2015. The consolidated financial statements for the year ended 31 December 2014, and the related consolidated balance sheets as of 1 January 2014 was restated retrospectively.

In addition, we have also audited the financial statements of the Bank as of and for the years ended 31 December 2015 and 2014, on which we have issued a modified unqualified opinion.

Ernst & Young

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
17 March 2016

Notice to Readers
The accompanying consolidated financial statements are intended only to present the financial position and results of financial performance and cash flows in accordance with IFRS recognized by Financial Supervisory Commission and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated 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 and Its Subsidiaries

Consolidated balance sheets

31 December 2015, 31 December 2014 and 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	2015.12.31	2014.12.31 (Adjusted)	2014.01.01 (Adjusted)
Cash and cash equivalents	4, 6, 7	$63,474,540	$142,482,813	$68,239,741
Due from the Central Bank and call loans to banks	6, 7	100,169,436	151,289,044	151,945,066
Financial assets at fair value through profit or loss	4, 5, 6	254,927,251	151,777,614	163,059,557
Derivative financial assets for hedging	4, 6	-	448,745	837,179
Securities purchased under agreements to resell	4, 6	44,508,936	33,059,521	7,645,763
Receivables, net	4, 5, 6, 7	82,020,776	78,822,672	120,778,165
Assets held for sale, net	4	-	-	81,950
Discounts and loans, net	4, 5, 6, 7	1,127,807,127	1,119,281,103	1,031,105,321
Available-for-sale financial assets, net	4, 5, 6	134,023,021	86,472,645	67,908,890
Held-to-maturity financial assets, net	4, 5, 6	52,518,777	53,070,618	51,395,078
Investments accounted for using equity method, net	4, 6	1,723,177	1,647,167	1,626,674
Other financial assets, net	4, 5	1,350	9,678	22,154
Investments in debt securities with no active market, net	4, 5, 6	442,764,138	369,327,713	280,272,013
Property and equipment, net	4, 6, 7	25,221,503	22,868,752	22,864,329
Investment properties, net	4, 5, 6	1,635,249	4,308,182	4,479,508
Intangible assets, net	4, 5, 6	7,579,638	7,404,527	7,374,860
Deferred tax assets	4, 5	1,864,066	1,689,912	1,566,757
Other assets, net	4, 6, 7	43,137,917	19,997,064	7,681,266
Total assets		$2,383,376,902	$2,243,957,770	$1,988,884,271

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated balance sheets (continued)

31 December 2015, 31 December 2014,and 1 January 2014

(Expressed in thousands of New Taiwan Dollars)

Liabilities and equity	Notes	2015.12.31	2014.12.31 (Adjusted)	2014.01.01 (Adjusted)
Liabilities				
Due to the Central Bank and call loans from banks	6, 7	$41,226,909	$58,816,432	$56,985,225
Funds borrowed from the Central Bank and other banks		-	1,585,900	1,497,500
Financial liabilities at fair value through profit or loss	4, 5, 6	100,397,997	57,714,826	11,271,187
Securities sold under agreements to repurchase	4, 6, 7	54,037,877	59,689,306	58,681,600
Payables	6, 7	18,313,238	22,148,652	15,156,034
Deposits and remittances	6, 7	1,881,657,210	1,739,023,267	1,615,860,463
Financial debentures payable	4, 6	51,900,000	67,613,949	52,417,213
Other financial liabilities	6	67,227,106	79,842,351	36,145,158
Provisions	4, 5, 6	3,199,030	2,779,298	2,682,960
Deferred tax liabilities	4, 5	1,936,821	1,501,860	677,593
Other liabilities	6, 7	6,711,919	5,624,486	4,882,804
Total liabilities		2,226,608,107	2,096,340,327	1,856,257,737
Equity				
Equity attribute to equity holders of parent				
Capital stock	6			
Common stock		69,479,605	67,112,762	64,668,494
Capital reserves	6	23,969,412	23,969,412	23,971,498
Retained earnings	6			
Legal reserves		35,073,510	29,772,901	26,281,089
Special reserves		1,914,537	1,880,952	1,890,118
Undistributed earnings		18,606,155	17,761,639	11,779,397
Other equity	6	3,964,675	3,446,564	596,948
Subtotal		153,007,894	143,944,230	129,187,544
Non-controlling interests	6	3,760,901	3,673,213	3,438,990
Total equity		156,768,795	147,617,443	132,626,534
Total liabilities and equity		$2,383,376,902	$2,243,957,770	$1,988,884,271

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of comprehensive income

For the year ended 31 December 2015 and 2014

(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	Notes	2015.01.01-2015.12.31	2014.01.01-2014.12.31 (Adjusted)
Interest income	4, 6, 7	$42,472,485	$40,752,408
Interest expense	6, 7	(15,743,917)	(14,973,288)
Net interest income		26,728,568	25,779,120
Non-interest income			
Net fee income	4, 6, 7	14,343,504	11,805,501
Gain on financial assets and liabilities at fair value through profit or loss	6, 7	1,458,442	4,266,614
Realized gain on available-for-sale financial assets		3,250,336	2,002,645
Realized gain on held-to-maturity financial asset, net		(48,332)	-
Gain on foreign currency exchange, net	4	844,789	1,105,540
Impairment loss of assets		-	(116,178)
Investment income recognized by the equity method		94,151	66,992
Others	4, 6, 7	1,380,342	1,064,492
Net non-interest income		21,323,232	20,195,606
Net operating income		48,051,800	45,974,726
Bad debt expense and losses on guarantees		(1,921,512)	(2,470,709)
Operating expenses			
Employee benefits expenses	4, 5, 6	(11,275,262)	(10,165,319)
Depreciation and amortization expenses	6	(1,177,246)	(1,067,192)
Other general and administrative expenses	4, 6, 7	(12,398,299)	(11,571,910)
Total operating expenses		(24,850,807)	(22,804,421)
Income from continuing operations before income taxes		21,279,481	20,699,596
Income tax expense	4, 6	(2,512,583)	(2,885,102)
Net income		18,766,898	17,814,494
Other comprehensive income			
Not to be reclassified to profit or loss in subsequent periods			
Remeasurements of defined benefit plans	6	(545,691)	(19,772)
Revaluation surplus	6	92,743	(18,717)
Designated as at fair value through profit or loss as financial liabilities of change from credit risk	6	42,544	58,013
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods	6	(1,177)	(484)
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods	6	84,928	(3,651)
To be reclassified to profit or loss in subsequent period			
Exchange differences on translating of foreign operation	6	1,142,965	1,529,151
Net gains on available-for-sale financial assets	6	16,351	1,940,663
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	6	51,980	22,312
Income tax relating to the components to be reclassified to profit or loss in subsequent periods	6	(220,069)	(460,506)
Other comprehensive income		664,574	3,047,009
Total comprehensive income		$19,431,472	$20,861,503
Net income attributable to:			
Equity holders of the parent		$18,598,294	17,627,841
Non-controlling interests		168,604	186,653
Net income		$18,766,898	$17,814,494
Net comprehensive income attributable to:			
Equity holders of the parent		$19,130,578	$20,462,065
Non-controlling interests		300,894	399,438
Total comprehensive income		$19,431,472	$20,861,503
Earnings per share (In dollars)			
Net income from continuing operations	6	2.68	2.54

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of changes in equity

For the year ended 31 December 2015 and 2014

(Expressed in thousands of New Taiwan Dollars)

	Equity attributable to equity holders of the parent													
			Retained earnings			Equity adjustment								
Items	Capital stock	Capital reserves	Legal reserves	Special reserves	Undistributed earnings	Foreign currency translation adjustment	Unrealized gains or losses on available-for-sale financial assets	Designated as at fair value through profit or loss as financial liabilities of change from credit risk	Remeasurements of defined benefit plans	Revaluation surplus	Others	Total	Non-controlling interests	Total Equity
Balance, 1 January 2014	$64,668,494	$23,971,498	$26,281,089	$1,890,118	$11,785,535	$(309,082)	$1,292,205	$-	$-	$145,979	$(953)	$129,724,883	$3,438,990	$133,163,873
Effect of retroactive and restated	-	-	-	-	(6,138)	-	-	-	(531,201)	-	-	(537,339)	-	(537,339)
Balance, 1 January 2014 (restated)	64,668,494	23,971,498	26,281,089	1,890,118	11,779,397	(309,082)	1,292,205	-	(531,201)	145,979	(953)	129,187,544	3,438,990	132,626,534
Earnings appropriation and distribution (Note)														
Legal Reserves	-	-	3,491,812	-	(3,491,812)	-	-	-	-	-	-	-	-	-
Cash Dividends	-	-	-	-	(5,703,293)	-	-	-	-	-	-	(5,703,293)	-	(5,703,293)
Stock Dividends	2,444,268	-	-	-	(2,444,268)	-	-	-	-	-	-	-	-	-
Net income for the year ended 31 December 2014	-	-	-	-	17,627,841	-	-	-	-	-	-	17,627,841	186,653	17,814,494
Other comprehensive income for the year ended 31 December 2014	-	-	-	-	-	1,101,363	1,717,472	48,151	(17,067)	(15,867)	172	2,834,224	212,785	3,047,009
Total comprehensive income for the year ended 31 December 2014	-	-	-	-	17,627,841	1,101,363	1,717,472	48,151	(17,067)	(15,867)	172	20,462,065	399,438	20,861,503
Price difference between book value and fair value on purchase														
of subsidiary equity	-	(2,086)	-	-	-	-	-			-	-	(2,086)	-	(2,086)
Special reserves reversal	-	-	-	(9,166)	9,166	-	-	-	-	-	-	-	-	-
others	-	-	-	-	(15,392)	-	-			15,392	-	-	-	-
Non-controlling Interests	-	-	-	-	-	-	-			-	-		(165,215)	(165,215)
Balance, 31 December 2014	$67,112,762	$23,969,412	$29,772,901	$1,880,952	$17,761,639	$792,281	$3,009,677	$48,151	$(548,268)	$145,504	$(781)	$143,944,230	$3,673,213	$147,617,443
Balance, 1 January 2015	$67,112,762	$23,969,412	$29,772,901	$1,880,952	$17,801,747	$792,281	$3,009,677	$-	$(656)	$145,504	$(781)	$144,483,799	$3,673,213	$148,157,012
Amounts of retrospective adjustments	-	-	-	-	(40,108)	-	-	48,151	(547,612)	-	-	(539,569)	-	(539,569)
Balance, 1 January 2015 (adjusted)	67,112,762	23,969,412	29,772,901	1,880,952	17,761,639	792,281	3,009,677	48,151	(548,268)	145,504	(781)	$143,944,230	3,673,213	$147,617,443
Earnings appropriation and distribution (Note)														
Legal Reserves	-	-	5,300,609	-	(5,300,609)	-	-	-	-	-	-	-	-	-
Special Reserves	-	-	-	67,381	(67,381)	-	-	-	-	-	-	-	-	-
Cash Dividends	-	-	-	-	(10,066,914)	-	-	-	-	-	-	(10,066,914)	-	(10,066,914)
Stock Dividends	2,366,843	-	-	-	(2,366,843)	-	-	-	-	-	-	-	-	-
Net income for the year ended 31 December 2015	-	-	-	-	18,598,294	-	-	-	-	-	-	18,598,294	168,604	18,766,898
Other comprehensive income for the year ended 31 December 2015	-	-	-	-	-	815,760	43,177	35,312	(453,865)	92,136	(236)	532,284	132,290	664,574
Total comprehensive income for the year ended 31 December 2015	-	-	-	-	18,598,294	815,760	43,177	35,312	(453,865)	92,136	(236)	19,130,578	300,894	19,431,472
Price difference between book value and fair value on purchase														
of subsidiary equity	-	-	-	-	-	-	-			-	-			
Special reserves reversal	-	-	-	(33,796)	33,796	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	14,173	-	-	-	-	(14,173)	-	-	-	-
Non-controlling Interests	-	-	-	-	-	-	-	-	-	-	-	-	(213,206)	(213,206)
Balance, 31 December 2015	$69,479,605	$23,969,412	$35,073,510	$1,914,537	$18,606,155	$1,608,041	$3,052,854	$83,463	$(1,002,133)	$223,467	$(1,017)	$153,007,894	$3,760,901	$156,768,795

Note: Employees' bonuses $1,500 have been deducted from current years' Statements of Comprehensive Income.

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay United Bank and Its Subsidiaries
Consolidated statements of cash flows
For the year ended 31 December 2015 and 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.01.01-2015.12.31	2014.01.01-2014.12.31 (Adjusted)
Operating activities		
Net income before income tax	$21,279,481	$20,699,596
Adjustment items:		
Non-cash adjustment to reconcile profit before tax to net cash flows:		
Depreciation expenses	951,950	877,541
Amortization expenses	225,296	189,651
Bad debt expenses	1,921,512	2,470,709
Interest expense	15,743,917	14,973,288
Interest income	(42,472,485)	(40,752,408)
Dividends income	(523,369)	(666,025)
Proportionate share of gains from associates or joint venture under equity method	(94,151)	(66,992)
(Gain) loss on disposal of property and equipment	7,335	(30,332)
Gain on disposal of investment properties	(37,277)	(57,382)
Loss on disposal of intangible assets	35,492	-
Impairment loss of financial assets	-	87,713
Impairment loss of non-financial assets	-	28,465
Loss on valuation of investment properties	15,343	28,314
Foreign currency translation adjustment	57,357	49,426
Change in operating assets and liabilities		
Increase in due from the Central Bank and call loans to banks	(4,996,676)	(2,977,965)
(Increase) decrease in financial assets at fair value through profit or loss	(103,146,561)	11,285,624
Decrease in derivative financial assets for hedging	448,745	388,434
(Increase) decrease in receivables	(3,709,887)	43,433,745
Increase in discounts and loans	(8,696,141)	(89,890,615)
Increase in available-for-sale financial assets	(47,333,747)	(16,536,637)
(Increase) decrease in held-to-maturity financial assets	610,787	(1,579,496)
Decrease in other financial assets	8,328	12,476
Increase in investments in debt securities with no active market	(73,436,425)	(89,143,413)
Increase in other assets	(1,314,140)	(2,961,918)
Increase (decrease) in due to the Central Bank and other banks	(17,797,575)	1,368,524
Increase in financial liabilities at fair value through profit or loss	42,725,323	46,492,340
Increase (decrease) in securities sold under agreements to repurchase	(5,651,429)	1,007,706
Increase (decrease) in payables	(3,197,796)	6,013,054
Increase in deposits and remittances	141,587,358	121,891,704
Increase (decrease) in other financial liabilities	(12,615,245)	43,697,193
Increase (decrease) in provisions	(116,011)	66,616
Increase (decrease) in other liabilities	(401,014)	638,032
Cash flows (used in) from operating activities	(99,921,705)	71,036,968
Interest received	41,821,491	37,797,482
Cash dividends received	523,369	666,025
Interest paid	(16,239,285)	(13,260,803)
Income tax paid	(2,251,893)	(1,991,463)
Net cash flows (used in) from operating activities	(76,068,023)	94,248,209
Investing activities		
Capital return due to capital decrease in equity-accounted investee	-	509
Purchase of property and equipment	(757,680)	(984,922)
Proceeds from sale of property and equipment	14,791	53,976
Proceeds from sale of assets held for sale	-	65,981
Purchase of intangible assets	(181,137)	(107,721)
Proceeds from sale of investment properties	190,727	243,422
Increase in other assets	(22,035,719)	(9,459,146)
Cash dividends received	68,942	65,897
Net cash flows used in investing activities	(22,700,076)	(10,122,004)
Financing activities		
Increase (decrease) in funds borrowed from the Central Bank and call loans from banks	(1,585,900)	88,400
Increase (decrease) in financial debentures payable	(15,713,949)	15,196,736
Increase in other liabilities	1,516,069	572,943
Distribution of cash dividends	(10,599,586)	(5,703,293)
Net cash flow (used in) from financing activities	(26,383,366)	10,154,786
Effects of foreign exchange rate changes	1,380,661	1,803,577
Net increase (decrease) in cash and cash equivalents	(123,770,804)	96,084,568
Cash and cash equivalents at beginning of the period	281,029,377	184,944,809
Cash and cash equivalents at end of the period	$157,258,573	$281,029,377
The components of cash and cash equivalents		
Cash and cash equivalents in balance sheet	$63,474,540	$142,482,813
Due from the Central Bank and call loans to banks conformed to the definition of cash and cash equivalents in IAS7	49,275,097	105,487,043
Securities purchased under agreements to resell conformed to the definition of cash and cash equivalents in IAS7	44,508,936	33,059,521
Cash and cash equivalents at end of the period	$157,258,573	$281,029,377

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

1. Business

Cathay United Bank ("the Bank"), originally named United Chancre Commercial Bank ("VWCCB"), 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 31 December 2015 and 2014, the Bank and subsidiaries employed 10,043 and 9,411 employees, respectively.

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

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

The consolidated financial statements of the Bank and subsidiaries ("the Group") for the years ended 31 December 2015 and 2014 were authorized for issue in accordance with the Board of Directors' resolution on 17 March 2016.

3. Newly issued or revised standards and interpretations

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after 1 January 2015. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

A. IAS 19 *Employee Benefits*

The revised IAS 19 brought about the following changes to defined benefit plans which are summarized below:

a. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under the revised IAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.

b. In the previous version of IAS 19, past service cost is recognized as an expense immediately to the extent that the benefits are already vested, or on a straight-line basis over the average period until the benefits become vested. Under the revised IAS 19, all past service costs are recognized at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognized. Therefore unvested past service cost is no longer deferred over future vesting periods.

c. The revised IAS 19 required more disclosure.

d. The Group applied the revised IAS 19 Employee Benefits retrospectively in the current period in accordance with the transitional provisions set out in the revised standard except that the carrying amount of assets was not adjusted for changes in employee benefit costs that were included in the carrying amount before 1 January 2014. The figures of the earliest comparative period presented and the comparative period have been accordingly restated.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

e. In the previous version of IAS 19, the Group amortize the amount that net cumulative unrecognized actuarial gains and losses exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of the plan assets over the expected remaining working lives of employees participating in the plan. Under the amended standard, the remeasurement of net defined benefit liability (asset) will be recognized in other comprehensive income and other equity immediately when occurs.

Adjusted items and amount influenced during each period:

Impact on the statements of comprehensive income:

	2015	2014
Operating expense:		
Decrease in staff expense	$63,185	$17,086
Increase in net income before tax	63,185	17,086
Increase in income tax expense	(10,741)	(2,905)
Increase in net income	52,444	14,181
Decrease in other comprehensive income	(452,924)	(16,411)
Increase in net income	$(400,480)	$(2,230)
Earnings per share		
Basic earnings per share	$(0.01)	$-

Impact on the balance sheets:

	2015.12.31	2014.12.31	2014.1.1
Increase in accrued pension liabilities	$1,132,589	$650,083	$647,396
Increase in deferred tax assets	192,540	110,514	110,057
Retained earnings			
Increase (decrease) in undistributed earnings	60,487	8,043	(6,138)
Decrease in other equity	(1,000,536)	(547,612)	(531,201)

B. Regulations Governing the Preparation of Financial Reports by Public Banks

a. According to the Regulations Governing the Preparation of Financial Reports by Public Banks, the amount of change in the fair value of the financial liability presented in current profit or loss is revised to be attributable to credit risk of that liability shall be presented in other comprehensive income, except that to avoid the accounting mismatch in profit or loss or loan commitments and financial guarantee contract that shall be presented in profit or loss.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

b. The Group adopts the amendments to Regulations Governing the Preparation of Financial Reports by Public Banks and the figures of the earliest comparative period presented, and the comparative period has been accordingly restated.

Adjusted items and amount influenced during each period:

Impact on the statements of comprehensive income:

	2015	2014
Non-interest income:		
Decrease in gain on financial asset and liabilities at fair value through profit or loss	$(42,544)	$(58,013)
Decrease in net income before tax	(42,544)	(58,013)
Decrease in income tax expense	7,232	9,862
Decrease in net income	(35,312)	(48,151)
Increase in other comprehensive income	35,312	48,151
Decrease in net income	$-	$-
Earnings per share		
Basic earnings per share	$(0.01)	$(0.01)

Impact on the balance sheets:

	2015.12.31	2014.12.31	2014.01.01
Retained earnings			
Decrease in undistributed earnings	$(83,463)	$(48,151)	$-
Increase in other equity	83,463	48,151	-

C. *IFRS 7 "Financial Instruments Disclosures" – Transfers of Financial Assets*

The amendments require that additional quantitative and qualitative disclosure on financial assets that have been transferred but not derecognized at reporting date and that have been derecognized but for which the entity retains continuing involvement. The Group has added additional nature and quantitative disclosures for transferred financial assets.

D. *IFRS 7 "Financial Instruments Disclosures" – Offsetting Financial Assets and Financial Liabilities*

The amendments require the entity disclose more information about offsetting of financial instrument. The disclosure shall enable users to evaluate the effect of offsetting on the entity's financial position. Financial instruments that offset in accordance with IAS 32 Financial Instruments: Presentation and that do not offset but subject to enforceable master netting arrangement or other similar agreements but not offset are included in the disclosure. The Group has added additional nature and quantitative disclosures for transferred financial assets.

E. *IFRS 12 "Disclosure of Interests in Other Entities"*

IFRS 12 *Disclosure of Interests in Other Entities* sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements, for example, summarized financial information about the associate or disclosure on subsidiaries with material non-controlling interests. Please refer to Note 6 for more details.

F. *IFRS 13 "Fair Value Measurements"*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. The Group re-assessed its policies for measuring fair values. Application of IFRS 13 has not materially impacted the fair value measurements of the Group.

Additional disclosures where required under IFRS 13, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 38. According to the transitional provisions of IFRS 13, IFRS 13 is applied prospectively as of 1 January 2015; the disclosure requirements of IFRS 13 need not be applied in comparative information before 1 January 2015.

G. *IAS 1"Presentation of Financial Statements" – Presentation of items of other comprehensive income*

Beginning 1 January 2014, the Group presented its items of other comprehensive income that will be reclassified to profit or loss separately from items that will not be reclassified in accordance with the amendments to IAS 1. The amendments affect presentation of statement of comprehensive income only and have no impact on the Group's financial position or performance.

H. *IAS 1"Presentation of Financial Statements" – Clarification of the requirement for comparative information*

Beginning 1 January 2014, according to the amendments to IAS 1, when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, the opening statement of financial position does not have to be accompanied by comparative information in the related notes. The amendments affect notes accompanying the financial statements only and have no impact on the Group's financial position or performance.

(2) Standards or interpretations issued by IASB but not yet endorsed by FSC at the date when the Group's financial statements were authorized for issue are listed below.

A. *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.

B. *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.

C. *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.

D. *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.

E. *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 add 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.

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.

F. *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.

G. *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.

H. *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.

I. *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.

J. *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 promised goods or services to customers in amounts that reflect the consideration to which the bank expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after 1 January 2018.

K. *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.

L. *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).

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.

M. *IAS 27"Separate Financial Statements" — Equity Method in Separate Financial Statements*

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity's separate financial statements. In 2003, the equity method was removed from the options. This amendment removes the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions.

The amendment is effective for annual periods beginning on or after 1 January 2016.

N. *IFRS 10"Consolidated Financial Statements" and IAS 28"Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures,* in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of this amendment has been postponed indefinitely, but early adoption is allowed.

O. *Improvements to International Financial Reporting Standards (2012-2014 cycle):*

IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

The amendment clarifies that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendment is effective for annual periods beginning on or after 1 January 2016.

IFRS 7 "Financial Instruments: Disclosures"

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 *Financial Instruments: Disclosures* is required. The amendment also clarifies that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 *Interim Financial Reporting.* The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 19 "Employee Benefits"

The amendment clarifies the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 34 "Interim Financial Reporting"

The amendment clarifies what is meant by "elsewhere in the interim financial report" under IAS 34; the amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is effective for annual periods beginning on or after 1 January 2016.

P. *Disclosure Initiative — Amendment to IAS 1 "Presentation of Financial Statements":*
The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2016.

Q. *IFRS 10"Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS 28"Investments in Associates and Joint Ventures" — Investment Entities: Applying the Consolidation Exception*

The amendments contain (1) clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and (3) allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment is effective for annual periods beginning on or after 1 January 2016.

R. *IFRS 16"Leases"*

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after 1 January 2019.

S. *IAS 12"Income Taxes" — Recognition of Deferred Tax Assets for Unrealized Losses*

The amendment clarifies how to account for deferred tax assets for unrealized losses. The amendment is effective for annual periods beginning on or after 1 January 2017.

T. Disclosure Initiative — Amendment to IAS 7 "Statement of Cash Flows":

The amendment relates to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendment is effective for annual periods beginning on or after 1 January 2017.

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

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended 31 December 2015 and 2014 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" , "International Financial Reporting Standards", "International Accounting Standards", and "Interpretations developmed by the International Financial Reporting Interpretations Committee" as endorsed by the FSC.

(2) Basis of preparation

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

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and investment property that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars unless otherwise stated.

The Group classifies their economic activities as operating, investing and financing activities in accordance with management's judgment. The consolidated 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 are disclosed in Note 6.(1).

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

A. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
B. exposure, or rights, to variable returns from its involvement with the investee, and
C. the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

A. the contractual arrangement with the other vote holders of the investee
B. rights arising from other contractual arrangements
C. the Group's voting rights and potential voting rights

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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.

If the Bank loses control of a subsidiary, it:

A. Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
B. Derecognizes the carrying amount of any non-controlling interest;
C. Recognizes the fair value of the consideration received;
D. Recognizes the fair value of any investment retained;
E. Recognizes any surplus or deficit in profit or loss; and
F. Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

		Business	Ownership (%)		
Investor	Subsidiary	nature	2015.12.31	2014.12.31	2014.01.01
The Bank	Indovina Bank Limited ("Indovina Bank") Indovina Bank was incorporated in Vietnam on 21 November 1990.	Wholesale banking	50%	50%	50%
The Bank	Cathay United Bank (Cambodia) Corporation Limited ("CUBC Bank") SBC Bank was incorporated in Cambodia on 5 July 1993, and renamed as CUBC as of 14 January 2014.	Wholesale banking	100%	100%	100%

The Board of the Bank approved raised capital of CUBC by US$43,000, and after that, the paid-in capital is amounted to US$60,000. The Bank had transferred investment US$43,000 which is presented as "investment accounted for using equity method".

For the years ended 31 December 2015 and 2014, 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 nature	Ownership (%) 2015.12.31	2014.12.31	2014.01.01
The Bank	Seaward Card Co., Ltd. ("Seaward Card") Seaward Card was incorporated on 9 April 1999.	Dispatch work	100%	100%	100%

Subsidiaries that are not included in consolidated financial statements are recognized as investments accounted for using equity method according to the accounting treatment of subsidiaries above.

(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's investment in its associate is accounted for using the equity method. An associate is an entity over which the Bank has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

When an associate or joint venture issues new stock, and the Bank's interest in the associate or joint venture is reduced or increased as the Bank fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in additional paid-in capital and investments accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income is 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 or joint venture.

The financial statements of the associate or joint venture 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 or an investment in a joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate or joint venture' 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:

A. Future cash flows the Bank expects to derive from the investment in the associate or joint venture, including cash flows from the operation of the associate and from the ultimate disposal of such investment, or

B. 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 or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for testing goodwill impairment in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate or joint venture, the Bank measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not re-measure the retained interest.

(6) Foreign currency transactions

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

Transactions in foreign currencies are initially recorded by the Group 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:

A. 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.

B. 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.

C. 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 New Taiwan Dollars 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. When the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, and the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

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 time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group classifies time deposits that are readily convertible to known amounts of cash within twelve months and which are subject to an insignificant risk of changes in value as 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 Group classifies 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 Group accounts for regular way purchase or sales of financial assets on the trade date (i.e. the date that the Group commits to purchase or sell the asset).

A. Financial assets or liabilities at fair value through profit or loss

Financial assets or liabilities include held for trading and designated by the Group at fair value through profit or loss are classified as financial assets or liabilities at fair value through profit or loss. A financial asset is classified as held for trading if:

a. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
b. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
c. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

a. it eliminates or significantly reduces a measurement or recognition inconsistency; or
b. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value. When it changes in fair value it recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

For financial liabilities designated as at FVTPL, the recognition of the full amount of change in the fair value in profit or loss only if the presentation of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

If financial assets do not have quoted prices in an active market and their fair value cannot be measured reliably, they are classified as financial assets measured at cost on balance sheet as at the reporting date.

B. 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 amortized.

C. 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.

D. 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 then:

a. Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading;
b. Those that the entity upon initial recognition designates as at fair value through profit or loss;
c. Those that the entity upon initial recognition designates as available-for-sale; or
d. 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, impaired and as well as through the amortization process.

E. 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, impaired and as well as through the amortization process.

b. Financial assets carried at cost

Investment 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.

F. 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 purposes. 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, less impairment and unreceivable 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 Group 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) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

a. in the principal market for the asset or liability, or
b. in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured by using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(13) Derecognition of financial assets and liabilities

A. 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:

a. The rights to receive cash flows from the asset have expired.

b. The Group has 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 the Bank 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.

B. 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 profit or loss.

(14) 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.

(15) 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:

A. Significant financial difficulty of the issuer or obligor; or
B. A breach of contract, such as a default or delinquency in interest or principal payments; or
C. It becomes probable that the borrower will enter bankruptcy or other financial reorganization; or
D. The disappearance of an active market for that financial asset because of financial difficulties.

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

A. 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.

B. 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 by 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.

C. 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. Classification system classifies normal credit assets under the first category, with poorer credit assets assessed based on the securities and the length of time overdue, respectively classified as second category special mention, third category expectation of recovery, fourth category difficulty of recovery, and fifth category no hope of recovery.

The minimum loan loss provision and guarantee reserve shall be the sum of 1% 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.

(16) Impairment of non-financial assets

The Group assesses 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.

(17) 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.

A. Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
B. Cash flow hedges hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability (e.g. the full or partial interest payable of floating interest rate loans) or a forecasted transactions;
C. Hedges of net investments in foreign operations hedges foreign currency risks as a result of foreign currency operations.

The Group formally documents 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 with changes in fair value recognized profit or loss.

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 of the following situation occurs:

A. The hedge instrument expired or is sold, terminated or exercised.
B. The hedge is no longer meets the criteria set out above.
C. The entity revokes the designation.

(18) Financial guarantee contracts

Financial guarantee contracts issued by the Group 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.

(19) Foreclosed properties

Foreclosed properties of the Group 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.

(20) Lease

All the leasing contracts of the Group follow the regulations of IAS17 and SIC4 and are categorized as operating lease. If the Group is the lessor, the asset in the operating lease is categorized under “Investment properties” account. If the Group is the lessee, 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 non-interest income”.

(21) Assets held for sale, net

Assets 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.

(22) 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 Bank 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
Machinery and equipment	3～ 8	years
Transportation equipment	3～ 7	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 benefit is 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.

(23) 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.

(24) 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, excluding 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.

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

Category	Useful lives	Amortization method
Computer software	3-8 years	Straight-line method
Other intangible assets	4 years	Straight-line method

(25) 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:

A. 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;

B. 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:

A. 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;

B. 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 Bank 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, since 2003.

(26) 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

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions.

Remeasurements, comprising of the effect of the following factors:

A. actuarial gains and losses,
B. the return on plan assets(excluding net interest) and
C. asset ceiling (excluding net interest), are recognized as other comprehensive income with a corresponding debit or credit to other equity in the period in which they occur. when recognized as other equity, remeasurements should not be classified as income and expense or transferred to retained earnings in the subsequent period. While the Bank has opted to recognize remeasurements as other equity.

Past service costs are recognized in profit or loss on the earlier of:

A. the date of the plan amendment or curtailment, and
B. the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

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.

(27) Provisions

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.

(28) 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.

(29) Service fee

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

A. Fee income on transactions conducted or from services provided over a period of time.
B. 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.

(30) Operating segment information

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

A. Engaging in business activities from which it may earn revenues and incur expenses;
B. 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
C. For which discrete financial information is available.

(31) 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.

5. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements require management to make judgments, 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) Judgment

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

A. 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.

B. Operating lease commitment—the Group 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.

A. Impairment losses on loans and receivables

The Group review their loans and receivables to assess whether an impairment loss should be recorded in profit or loss on a monthly basis. When the Group determines 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 changes in debtor payment status, or sovereign or the local economic situation related to debt payment. While analysing expected cash flow, the estimates by the management are based on past losses experience on the assets of similar credit risk characteristics. The Group periodically reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss.

B. 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.

C. Impairment of non-financial assets

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 or cash generating unit. 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 Group 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 impaired 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.

D. 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 program do not expire, such estimates are subject to significant uncertainty.

E. 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 Group 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 Group 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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

F. 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 and future salary 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.

G. Fair value of investment property

The fair value of investment property is derived from valuation techniques, including income approach (such as discounted cash flow model and direct capitalization approach), comparison approach, and cost approach, while the assumptions used in applying valuation techniques will have impacts on the fair value of investment property. Please refer Note 6.(12) for more details.

6. Breakdown of Significant Accounts

(1) Cash and cash equivalents

	2015.12.31	2014.12.31
Cash on hand	$16,003,150	$16,029,598
Checks for clearance	3,573,643	6,090,870
Due from commercial banks	43,897,747	120,362,345
Total	$63,474,540	$142,482,813

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

	2015.12.31	2014.12.31
Cash and cash equivalents in balance sheet	$63,474,540	$142,482,813
Due from the Central Bank and call loans to banks conformed to the definition of cash and cash equivalents in IAS7	49,275,097	105,487,043
Securities purchased under agreements to resell conformed to the definition of cash and cash equivalents in IAS7	44,508,936	33,059,521
Cash and cash equivalents at end of the periods in statements of cash flows	$157,258,573	$281,029,377

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

	2015.12.31	2014.12.31
Call loans to banks	$26,578,538	$82,405,472
Due from the Central Bank - Statutory reserve on deposits	50,894,339	45,802,001
Due from the Central Bank - General deposits	22,696,559	23,081,571
Total	$100,169,436	$151,289,044

A. The Bank

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

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 $47,208,030 and $43,845,797 as of 31 December 2015 and 31 December 2014, 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 31 December 2015 and 31 December 2014, the balances of foreign-currency deposit reserves were $1,730,160 and $494,801, respectively.

B. Indovina Bank

In accordance with the relevant local laws and regulations governing credit institutions, the amounts of compulsory reserves for the State Bank of Vietnam were $1,039,735 and $903,983 as of 31 December 2015 and 31 December 2014, respectively.

C. CUBC Bank

In accordance with the relevant local laws and regulations governing credit institutions, the amounts of compulsory reserves for the National Bank of Cambodia were $916,414 and $557,420 as of 31 December 2015 and 31 December 2014, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(3) Financial assets at fair value through profit or loss

	2015.12.31	2014.12.31
Financial assets for trading:		
Stocks	$120,041	$50,929
Short-term bills	173,356,042	110,018,729
Mutual funds and beneficiary securities	119,916	-
Bonds	16,454,225	12,020,042
Derivative financial instruments	64,877,027	29,687,914
Total	$254,927,251	$151,777,614

A. As of 31 December 2015 and 31 December 2014, the amount (the range of fair value for derivative contracts between initial recognition and subsequent measurement) for derivative financial instrument (include hedging) are disclosed as following: (Unit: thousands of US dollars):

	2015.12.31	2014.12.31
Currency forward contracts	$53,284,211	$32,387,537
Interest rate swap	28,490,707	24,295,422
Cross currency swap	14,119,822	6,794,849
Options	13,816,320	18,010,084
Futures	31,000	65,000
Structured Derivative instruments	-	156,123

B. For the year ended 31 December 2015 and 2014, interest income arising from financial assets at fair value through profit or loss were $879,679 and $755,597, gains on disposal of financial assets at fair value through profit or loss were $31,237,827 and $21,522,853, gains on valuation of financial assets at fair value through profit or loss were $47,586,076 and $22,310,551, net gains arising from financial assets at fair value through profit or loss were $79,703,582 and $44,589,001, respectively.

C. The Bank was authorized to issue subordinated financial debentures amounting to US$990 million in September 2014, which issued a subordinated financial debentures amounting to US$660 million (perpetual) and US$330 million (fifteen-year) with a fixed interest rate in 8 October 2014, respectively, and the Bank was authorized by the authorities to redeem the US$660 million bonds at its fair value after 12 year by fulfilling the said conditions.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The Bank was authorized to issue unsubordinated financial debentures amounting to US$180 million (thirty-year) in 30 March 2015, in addition to redeeming bond by exercising call option, redeemable on maturity, in the form of zero-coupon bonds, internal rate of return of 4.20%.

The Bank converted fixed interest rate into floating interest rate with interest rate swap contract to hedge the fair value risk resulting from interest rate. The interest rate swap valuations for the years ended 31 December 2015 and 2014 was net gain $1,969,492 and $1,735,427, 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 Note 4.

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 interest rate swap transactions above on 31 December 2014 were $448,745. For the years ended 31 December 2015 and 2014, net gains (losses) on the hedging derivative financial instrument amounted to losses $2,882 and gains $15,486, respectively. For the years ended 31 December 2015 and 2014, net gains from the hedged risk of the hedged items amounted to $339,341 and $387,553, respectively.

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

	2015.12.31	2014.12.31
Notes receivable	$538	$34,099
Accounts receivable	56,808,880	54,148,295
Interest receivable	5,489,968	4,929,472
Foreign currency receivable	347,755	128,259
Acceptances	1,595,287	1,276,248
Factoring receivable	17,036,810	18,221,906
Others	3,527,522	1,928,655
Total	84,806,760	80,666,934
Adjustment for discounts and premiums	(6,296)	(7,462)
Less: allowance for doubtful accounts	(2,779,688)	(1,836,800)
Net balance	$82,020,776	$78,822,672

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

A. Information on bad and doubtful accounts is as follows:

	2015		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$137,582	$1,699,218	$1,836,800
Provision of doubtful accounts	758,295	-	758,295
Write-offs	(337,590)	-	(337,590)
Debt negotiation recoveries	121,328	-	121,328
Recoveries	506,183	-	506,183
Reclassification	(535,202)	424,936	(110,266)
Effects of exchange rates changes	-	4,938	4,938
Balance, end of the period	$650,596	$2,129,092	$2,779,688

	2014		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$144,462	$1,938,442	$2,082,904
Reversal of doubtful accounts	(455,153)	-	(455,153)
Write-offs	(355,020)	-	(355,020)
Debt negotiation recoveries	128,160	-	128,160
Recoveries	559,886	-	559,886
Reclassification	115,247	(243,406)	(128,159)
Effects of exchange rates changes	-	4,182	4,182
Balance, end of the period	$137,582	$1,699,218	$1,836,800

B. Impairment assessment of receivables – the Bank

Item		Receivables	
		2015.12.31	2014.12.31
With objective evidence of impairment	Individual assessment	$511,540	$21,386
	Collective assessment	192,560	171,362
Without objective evidence of impairment	Collective assessment	83,109,437	80,460,971

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Item		Allowance for doubtful accounts	
		2015.12.31	2014.12.31
With objective evidence of impairment	Individual assessment	$506,987	$9,198
	Collective assessment	143,609	128,384
Without objective evidence of impairment	Collective assessment	2,129,092	1,699,218

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

(6) Discounts and loans, net

	2015.12.31	2014.12.31
Outward documentary bills	$986,975	$9,121,368
Overdrafts	2,345,273	1,429,637
Short-term loans	317,123,097	325,386,310
Medium-term loans	297,755,257	317,572,200
Long-term loans	523,747,351	479,560,125
Delinquent accounts	2,787,562	3,106,364
Total	1,144,745,515	1,136,176,004
Adjustment for discounts and premiums	817,604	944,256
Less: allowance for doubtful accounts	(17,755,992)	(17,839,157)
Net balance	$1,127,807,127	$1,119,281,103

A. Please refer to Note 12.(7) for details on loans by industries and geographic regions.

B. Information on bad and doubtful accounts is as follows:

a. The Bank

	2015		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$5,130,139	$12,544,674	$17,674,813
Provision of doubtful accounts	952,753	-	952,753
Write-offs	(2,557,513)	-	(2,557,513)
Debt negotiation recoveries	112,524	-	112,524
Recoveries	963,606	-	963,606
Reclassification	(1,489,889)	1,600,155	110,266
Effects of changes in exchange rates	-	66,194	66,194
Balance, end of the period	$3,111,620	$14,211,023	$17,322,643

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2014		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$4,267,369	$10,119,032	$14,386,401
Provision of doubtful accounts	2,645,809	-	2,645,809
Write-offs	(1,326,691)	-	(1,326,691)
Debt negotiation recoveries	120,793	-	120,793
Recoveries	1,589,312	-	1,589,312
Reclassification	(2,166,453)	2,294,612	128,159
Effects of changes in exchange rates	-	131,030	131,030
Balance, end of the period	$5,130,139	$12,544,674	$17,674,813

b. Indovina Bank

	2015	2014
Balance, beginning of the period	$45,689	$170,576
Provision of doubtful accounts	239,579	62,126
Bad loans write-offs	(17,358)	-
Reclassification	-	(203,533)
Effects of changes in exchange rates, etc.	25,821	16,520
Balance, end of the period	$293,731	$45,689

c. CUBC Bank

	2015	2014
Balance, beginning of the period	$118,655	$28,844
Provision of doubtful accounts	25,722	84,025
Bad loans write-offs	(6,415)	-
Reclassification	-	(16,786)
Effects of changes in exchange rates, etc.	1,656	22,572
Balance, end of the period	$139,618	$118,655

D. Impairment assessment of discounts and loans — the Bank

Item		Discounts and loans	
		2015.12.31	2014.12.31
With objective evidence of impairment	Individual assessment	$6,569,819	$15,338,246
	Collective assessment	7,000,740	6,139,611
Without objective evidence of impairment	Collective assessment	1,104,447,168	1,091,740,385

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Item		Allowance for doubtful accounts	
		2015.12.31	2014.12.31
With objective evidence of impairment	Individual assessment	$1,459,849	$3,904,033
	Collective assessment	1,651,771	1,226,106
Without objective evidence of impairment	Collective assessment	14,211,023	12,544,674

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

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

	2015.12.31	2014.12.31
Stocks	$18,241,506	$14,897,411
Short-term bills	1,360,701	136,157
Mutual funds and beneficiary securities	2,344,845	502,471
Bonds	112,075,969	70,936,606
Net balance	$134,023,021	$86,472,645

A. Impairment assessment of available-for-sale financial assets above, please refer to Note 12.(7).

B. As of 31 December 2015, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of $43,477,428. Such repurchase agreements amounting to $32,587,559 was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2015 were settled at $32,604,469 prior to 30 June 2016, and repurchase agreements amounting to $11,004,293 posted to the "Securities sold under agreements to repurchase" account on balance sheets were without settlement date.

As of 31 December 2014, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of $15,143,582. Such repurchase agreements amounting to $11,855,152 was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2014 were settled at $11,861,068 prior to 31 January 2015, and repurchase agreements amounting to $3,710,003 were without settlement date.

C. Available-for-sale financial assets of $953,126 and $1,192,331 as of 31 December 2015 and 31 December 2014, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

	2015.12.31	2014.12.31
Short-term bills	$-	$39,621
Bond	52,518,777	53,030,997
Net balance	$52,518,777	$53,070,618

A. As of 31 December 2015, certain held-to-maturity financial assets were sold under repurchase agreements with notional amounts of $13,259,466. Such repurchase agreements amounting to $10,446,025 were posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2015 were settled at $10,452,556 prior to 31 January 2016.

As of 31 December 2014, certain held-to-maturity financial assets were sold under repurchase agreements with notional amounts of $44,301,111. Such repurchase agreements amounting to $40,065,833 was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2014 were settled at $40,087,078 prior to 31 January 2015.

B. Held-to-maturity financial assets of $1,592,966 and $1,556,065 as of 31 December 2015 and 31 December 2014, respectively, were pledged to other parties as collateral of business reserves and guarantees.

(9) Investments accounted for using equity method, net

	2015.12.31		2014.12.31	
	Carrying value	% of ownership	Carrying value	% of ownership
Investment in subsidiaries				
Seaward Card Co., Ltd.	$39,226	100.00	$39,727	100.00
Investment in associates				
Taiwan Real-estate Management Corp.	93,988	30.15	95,048	30.15
Taiwan Finance Corp.	1,589,963	24.57	1,512,392	24.57
Subtotal	1,683,951		1,607,440	
Total	$1,723,177		$1,647,167	

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

A. 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 investors in the form of cash dividends, repayment of loans or advances.

B. Vista Technology Venture Capital Corp. that the Bank invested reduced capital by $10,692 dissolved and completed its liquidation process on 4 October 2014.

C. Investment in the associates.

The Bank's investments in the associates are not significant. The carrying amount of investments in associates accounted for using the equity method amounted to $1,683,951 and $1,607,440, respectively. The aggregate financial information of the Bank's investment in the associates is as follows:

	2015	2014
Profit from continuing operations	$92,925	$65,072
Other comprehensive income (post-tax)	51,039	21,658
Total comprehensive income	143,964	86,730

No investment in the associates had contingent liabilities or capital commitments and were pledged as of 31 December 2015 and 31 December 2014.

(10) Investments in debt securities with no active market, net

	2015.12.31	2014.12.31
Preferred stocks	$-	$549,730
Short-term bills	429,465,000	361,120,000
Bonds	13,299,138	7,657,983
Net balance	$442,764,138	$369,327,713

A. Impairment assessment of investments in debt securities with no active market assets above, please refer to Note 12.(7).

B. As of 31 December 2014, certain investments in debt securities with no active market assets were sold under repurchase agreement with notional amounts of $11,597,421. Such repurchase agreements amounting to $4,058,318 was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2014 were settled at $4,060,181 prior to 31 January 2015.

C. $63,800,000 and $62,000,000 of certificates of deposit as of 31 December 2015 and 31 December 2014, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(11) Property and equipment, net

	Land	Buildings	Office equipment	Transportation equipment	Leasehold improvements	Other equipment	Construction in progress and prepayment for equipment	Total
Cost:								
2014.01.01	$13,905,089	$10,017,960	$4,745,938	$98,576	$17,310	$6,269,601	$513,928	$35,568,402
Additions	-	610	207,389	2,751	3,438	196,952	573,782	984,922
Transfers	(18,985)	(51,107)	77,767	23,818	-	362,091	(539,340)	(145,756)
Disposals	(16,717)	(7,237)	(279,493)	(18,489)	-	(144,121)	-	(466,057)
Exchange differences	7,665	18,895	19,692	4,297	1,017	4,475	8,683	64,724
2014.12.31	$13,877,052	$9,979,121	$4,771,293	$110,953	$21,765	$6,688,998	$557,053	$36,006,235
2015.01.01	$13,877,052	$9,979,121	$4,771,293	$110,953	$21,765	$6,688,998	$557,053	$36,006,235
Additions	-	5,688	191,878	10,694	7,406	159,054	382,960	757,680
Transfers	1,710,267	587,016	74,981	1,200	-	456,396	(239,082)	2,590,778
Disposals	(7,660)	(918)	(260,514)	(5,888)	(741)	(122,630)	(51,721)	(450,072)
Exchange differences	5,844	15,920	27,815	4,220	152	5,351	(17,599)	41,703
2015.12.31	$15,585,503	$10,586,827	$4,805,453	$121,179	$28,582	$7,187,169	$631,611	$38,946,324
Depreciations and impairments:								
2014.01.01	$-	$3,448,019	$3,886,262	$74,248	$11,918	$5,283,626	$-	$12,704,073
Depreciation	-	211,643	333,088	9,538	2,081	321,191	-	877,541
Transfers	-	(25,314)	-	-	-	-	-	(25,314)
Disposals	-	(4,832)	(284,616)	(13,289)	-	(140,627)	-	(443,364)
Exchange differences	-	4,503	13,855	3,478	768	1,943	-	24,547
2014.12.31	$-	$3,634,019	$3,948,589	$73,975	$14,767	$5,466,133	$-	$13,137,483
2015.01.01	$-	$3,634,019	$3,948,589	$73,975	$14,767	$5,466,133	$-	$13,137,483
Depreciation	-	221,067	325,167	10,561	2,156	392,999	-	951,950
Transfers	-	(7,795)	18	-	-	(18)	-	(7,795)
Disposals	-	(617)	(260,161)	(4,832)	(233)	(110,601)	-	(376,444)
Exchange differences	-	3,213	13,139	3,007	60	208	-	19,627
2015.12.31	$-	$3,849,887	$4,026,752	$82,711	$16,750	$5,748,721	$-	$13,724,821
Net carrying amount:								
2015.12.31	$15,585,503	$6,736,940	$778,701	$38,468	$11,832	$1,438,448	$631,611	$25,221,503
2014.12.31	$13,877,052	$6,345,102	$822,704	$36,978	$6,998	$1,222,865	$557,053	$22,868,752

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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(12) Investment Properties, net

	Land	Buildings	Total
Cost :			
2014.01.01	$3,499,062	$1,022,071	$4,521,133
Transfers	33,756	41,870	75,626
Losses arising from changes in the fair value	(4,944)	(23,370)	(28,314)
Disposals	(160,150)	(37,931)	(198,081)
2014.12.31	$3,367,724	$1,002,640	$4,370,364
2015.01.01	$3,367,724	$1,002,640	$4,370,364
Transfers	(1,621,096)	(883,044)	(2,504,140)
Gains (Losses) arising from changes in the fair value	(19,416)	4,073	(15,343)
Disposals	(129,670)	(23,780)	(153,450)
2015.12.31	$1,597,542	$99,889	$1,697,431
Impairment:			
2014.01.01	$(41,625)	$-	$(41,625)
Impairment	(28,465)	-	(28,465)
Disposals	7,908	-	7,908
2014.12.31	$(62,182)	$-	$(62,182)
2015.01.01	$(62,182)	$-	$(62,182)
2015.12.31	$(62,182)	$-	$(62,182)
Net carrying amount:			
2015.12.31	$1,535,360	$99,889	$1,635,249
2014.12.31	$3,305,542	$1,002,640	$4,308,182

	2015	2014
Rental income from investment property	$20,091	$79,971
Less:		
Direct operating expenses from investment property generating rental income	-	(10,793)
Direct operating expenses from investment property not generating rental income	(2,365)	(3,602)
Total	$17,726	$65,576

A. 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.

B. As of 31 December 2015 and 31 December 2014, no investment property was pledged.

C. The Bank appointed appraisers from CCIS Valuation and Professional Services (Ching-Sheng, Huang) to evaluate the fair value of investment property based on the "Regulations on Real Estate Appraisal" on 31 December 2015.

The Bank appointed appraisers from Savills Valuation and Professional Services (Kempis Tai, Howard Chang), to evaluate the fair value of investments property based on the "Regulations on Real Estate Appraisal" on 31 December 2014 and 1 January 2014, respectively.

Fair value has been supported by observable evidences in the market. The appraisal approaches used are mainly the income approach (such as discounted cash flow model and direct capitalization approach), sales comparison approach and cost approach, etc.

a. Office building has market liquidity and their rent levels are more comparable with similar items from the same neighborhood. The fair value has been determined by comparison approach.

Net rental 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 and the actual payment date.

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

The replacement allowance is calculated renovation cost base on 15% construction cost, presume the useful life of 20 years, according to the ROC Real Estate Appraisers Association Gazette No.5, the replacement allowance is based on 0.5% to 1.5% of construction or building cost.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The main parameters are as follows:

	2015.12.31	2014.12.31
Discounted rates	-	4.625%
Direct capitalization rate	1.60%-2.85%	-

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

	2015.12.31	2014.12.31
Rate of return	30%	25%
Overall capital interest rate	19.20%	23.05%

D. Some of the roads and scenic land sites are difficult to develop and have no prospect of profits, for which the fair value cannot be reliably measured. The cost model is adopted in accordance with IAS 16.

(13) Intangible assets, net

	Goodwill	Computer software	Others	Total
Cost:				
2014.01.01	$6,989,667	$1,503,556	$-	$8,493,223
Additions-acquired separately	-	107,721	-	107,721
Disposals	-	(98,906)	-	(98,906)
Transfers	-	92,361	-	92,361
Exchange differences	18,688	3,980	-	22,668
2014.12.31	$7,008,355	$1,608,712	$-	$8,617,067
2015.01.01	$7,008,355	$1,608,712	-	$8,617,067
Additions-acquired separately	-	179,753	1,384	181,137
Disposals	-	(217,343)	-	(217,343)
Transfers	-	240,617	-	240,617
Exchange differences	14,249	3,591	-	17,840
2015.12.31	$7,022,604	$1,815,330	$1,384	$8,839,318

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	Goodwill	Computer software	Others	Total
Amortization and impairment:				
2014.01.01	$-	$1,118,363	$-	$1,118,363
Amortization	-	189,651	-	189,651
Disposals	-	(98,906)	-	(98,906)
Exchange differences	-	3,432	-	3,432
2014.12.31	$-	$1,212,540	$-	$1,212,540
2015.01.01	$-	$1,212,540	$-	$1,212,540
Amortization	-	225,296	-	225,296
Disposals	-	(181,851)	-	(181,851)
Exchange differences	-	3,695	-	3,695
2015.12.31	$-	$1,259,680	$-	$1,259,680
Net carrying amount:				
2015.12.31	$7,022,604	$555,650	$1,384	$7,579,638
2014.12.31	$7,008,355	$396,172	$1,384	$7,404,527

Impairment testing of goodwill:

A. 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.

B. The calculation of value in use for the unit is most sensitive to the following assumptions:

a. 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).

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

Assumptions are based on published industry research.

C. 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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(14) Other assets, net

	2015.12.31	2014.12.31
Prepayment	$970,435	$994,958
Temporary payments	271,656	308,295
Interbank settlement fund	6,280,188	5,090,974
Refundable deposits, net	34,772,039	12,838,941
Operating deposits, net	667,298	536,360
Foreclosed properties, net	59,519	57,092
Others	116,782	170,444
Total	$43,137,917	$19,997,064

As of 31 December 2015 and 31 December 2014, the amounts of land use rights of $407,748 and $369,263 were recognized under prepayment, respectively.

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

	2015.12.31	2014.12.31
Due to commercial banks	$5,392,768	$9,045,868
Due to Post Co., Ltd.	19,873,851	19,899,899
Overdrafts from banks	366,750	1,159,125
Call loans from banks	15,593,540	28,711,540
Total	$41,226,909	$58,816,432

(16) Financial liabilities at fair value through profit or loss

	2015.12.31	2014.12.31
Financial liabilities designated at fair value through profit or loss:		
Bonds	$40,598,667	$32,746,635
Financial liabilities held for trading:		
Derivative financial instruments	59,799,330	24,968,191
Subtotal	59,799,330	24,968,191
Total	$100,397,997	$57,714,826

The Bank was authorized to issue subordinated financial debentures amounting to USD$990 million in September 2014, which issued a subordinated financial debentures amounting to US$660 million (perpetual) and US$330 million (fifteen-years) with a fixed interest rate of 5.10% and 4.00% in 8 October 2014, respectively, and the interest is payable annually. The Bank was authorized by the authorities to redeem the US$660 million bonds at its book value after 12 year by fulfilling the said conditions.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The Bank was authorized to issue unsubordinated financial debentures amounting to US$180 million (thirty-years) in 30 March 2015, in addition to redeeming bond by exercising call option, redeemable on maturity, in the form of zero-coupon bonds, internal rate of return of 4.20%.

As of the year ended 31 December 2015 and 2014, Interest expenses arising from financial liabilities at fair value through profit or loss were $1,589,071 and $335,245, losses on disposal of financial liabilities at fair value through profit or loss were $29,657,869 and $17,869,653, losses on valuation of financial liabilities at fair value through profit or loss were $46,998,200 and $22,117,489, net losses were arising from financial liabilities at fair value through profit or loss $78,245,140 and $40,322,387, respectively.

(17) Payables

	2015.12.31	2014.12.31
Accounts payable	$3,925,019	$7,112,820
Interest payable	2,851,563	3,291,920
Accrued expenses	5,984,788	5,704,855
Foreign currency payable	153,687	95,355
Acceptance	1,611,131	1,283,295
Tax payable	357,329	325,978
Related party payables for allocation of linked-tax system	419,607	229,509
Dividends payable	-	301,321
Receipts under custody	338,453	459,824
Others	2,671,661	3,343,775
Total	$18,313,238	$22,148,652

(18) Deposits and remittances

	2015.12.31	2014.12.31
Check deposits	$13,832,565	$17,237,284
Demand deposits	404,018,386	345,541,416
Demand savings deposits	704,544,214	681,050,222
Time deposits	380,220,441	355,349,030
Negotiable certificates of deposit	4,489,200	5,290,200
Time savings deposits	373,406,772	332,579,141
Outward remittances	390,180	479,192
Remittances payable	755,452	1,496,782
Total	$1,881,657,210	$1,739,023,267

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(19) Financial debentures payable

	2015.12.31	2014.12.31
Subordinated financial debentures	$51,900,000	$67,283,839
Discount in financial debentures	-	(8,417)
Valuation adjustment	-	338,527
Total	$51,900,000	$67,613,949

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 6.(4), the Bank has adopted hedge accounting to account for its subordinated financial debentures. The Bank had bought back the debentures amounting to US$172,620 in May 2009 and redeemed the debentures in full in October 2015.

The Bank issued a seven-year subordinated financial debentures totaling $1,200,000 with a stated interest rate of 2.95% in September 2008, and the interest is payable quarterly. The Bank had redeemed all these debentures in September 2015.

The Bank issued a seven-year subordinated financial debentures totaling $1,000,000 with a floating interest rate in September 2008, and the interest is payable quarterly. The Bank had redeemed all these debentures in September 2015.

The Bank issued a seven-year subordinated financial debentures totaling $2,800,000 with a stated interest rate of 2.95% in October 2008, and the interest is payable quarterly. The Bank had redeemed all these debentures in October 2015.

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

The Bank issued a ten-year subordinated financial debentures totaling $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 $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 $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 $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 $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

	2015.12.31	2014.12.31
Principal received from the sale of structured products	$67,227,106	$79,842,351

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(21) Provisions

	2015.12.31	2014.12.31
Reserve for employee benefits — Defined benefits plan	$2,462,781	$2,007,415
Reserve for employee benefits — 0+Preferential interest rate deposits	605,038	627,789
Reserve for losses on guarantees	104,895	121,414
Other operating reserve	26,316	22,680
Total	$3,199,030	$2,779,298

	2015.01.01	Addition (Reversal)	2015.12.31
Defined benefits plan	$2,007,415	$455,366	$2,462,781
Preferential interest rate deposits	627,789	(22,751)	605,038
Reserve for losses on guarantees	121,414	(16,519)	104,895
Other operating reserve	22,680	3,636	26,316
Total	$2,779,298	$419,732	$3,199,030

	2014.01.01	Addition (Reversal)	2014.12.31
Defined benefits plan	$2,005,806	$1,609	$2,007,415
Preferential interest rate deposits	629,582	(1,793)	627,789
Reserve for losses on guarantees	24,892	96,522	121,414
Other operating reserve	22,680	-	22,680
Total	$2,682,960	$96,338	$2,779,298

(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 three-month year ended 2015 and 2014 were $270,084 and $246,985, respectively, and recorded as "Employee benefits expenses".

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Defined benefit 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. Before the end of each year, the Bank assesses the balance in the designated labor pension fund. Based on Article 56 of Labor Standards Act of the R.O.C., if the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Bank will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. The Bank expects to contribute $205,774 to its defined benefit plan during the 12 months beginning after 31 December 2015.

As of 31 December 2015 and 2014, the Bank expects its defined benefits plan obligation to become due in 2028.

Pension costs recognized in profit or loss for the years ended 31 December 2015 and 2014:

	For the years ended 31 December	
	2015	2014
Current period service costs	$141,740	$141,210
Interest expense from net defined benefit liability	35,798	36,886
Total	$177,538	$178,096

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	2015.12.31	2014.12.31	2014.01.01
Defined benefit obligation	$4,856,742	$4,297,615	$4,207,320
Plan assets at fair value	(2,393,961)	(2,300,149)	(2,201,514)
Other non-current liabilities – Accrued pension liabilities recognized on the consolidated balance sheets	$2,462,781	$1,997,466	$2,005,806

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
2014.1.1	$4,207,320	$(2,201,514)	$2,005,806
Defined benefit cost recognized in profit or loss			
Current period service costs	141,210	-	141,210
Net interest expense (income)	79,931	(43,045)	36,886
Subtotal	221,141	(43,045)	178,096
Defined benefit cost－recognized in other comprehensive income			
Actuarial gains and losses arising from changes in financial assumptions	16,761	-	16,761
Experience adjustments	8,320	-	8,320
Return on plan assets	-	(5,309)	(5,309)
Subtotal	25,081	(5,309)	19,772
Payments from the plan	(155,927)	155,927	-
Contributions by employer	-	(206,208)	(206,208)
2014.12.31	4,297,615	(2,300,149)	1,997,466
Defined benefit cost recognized in profit or loss			
Current period service costs	141,740	-	141,740
Net interest expense (income)	80,034	(44,236)	35,798
Subtotal	221,774	(44,236)	177,538
Defined benefit cost－recognized in other comprehensive income			
Actuarial gains and losses arising from changes in financial assumptions	363,916	-	363,916
Experience adjustments	142,742	-	142,742
Return on plan assets	-	(12,075)	(12,075)
Subtotal	506,658	(12,075)	494,583
Payments from the plan	(169,305)	169,305	-
Contributions by employer	-	(206,806)	(206,806)
2015.12.31	$4,856,742	$(2,393,961)	$2,462,781

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	2015.12.31	2014.12.31
Discount rate	1.30%	1.89%
Expected rate of salary increases	2.00%	2.00%

A sensitivity analysis for significant assumption as at 31 December 2015 and 2014 is, as shown below:

	Effect on the defined benefit obligation			
	2015		2014	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$296,261	$-	$266,452
Discount rate decrease by 0.5%	320,545	-	292,238	-
Future salary increase by 0.5%	315,688	-	287,940	-
Future salary decrease by 0.5%	-	291,405	-	266,452

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

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 $255,788 and $315,513 were recognized for the years ended 31 December 2015 and 2014, and recorded as “Employee benefits expenses”, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Pension costs recognized in profit or loss for the years ended 31 December 2015 and 2014:

	For the years ended 31 December	
	2015	2014
Current period service costs	$-	$-
Interest expense from net defined benefit liability	23,317	87,043
Total	$23,317	$87,043

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	2015.12.31	2014.12.31	2014.01.01
Defined benefit obligation	$(605,038)	$(627,789)	$(629,582)
Plan assets at fair value	-	-	-
Other non-current liabilities － Accrued pension liabilities recognized on the consolidated balance sheets	$(605,038)	$(627,789)	$(629,582)

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation
2014.1.1	$629,582
Defined benefit cost recognized in profit or loss	
Net interest expense	87,043
Subtotal	87,043
Payments from the plan	(88,836)
2014.12.31	627,789
Defined benefit cost recognized in profit or loss	
Net interest expense	23,317
Subtotal	23,317
Defined benefit cost－recognized in other comprehensive income	
Experience adjustments	51,109
Subtotal	51,109
Payments from the plan	(97,177)
2015.12.31	$605,038

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	2015.12.31	2014.12.31
Discount rate	4.00%	4.00%
Expected rate of return on deposited fund	2.00%	2.00%
Withdrawal rate of preferential interest rate deposits	1.00%	1.00%

A sensitivity analysis for significant assumption as at 31 December 2015 and 2014 is, as shown below:

	Effect on the defined benefit obligation			
	2015		2014	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$29,647	$-	$30,762
Discount rate decrease by 0.5%	35,092	-	37,040	-
Death rate adjusted to 105%	-	5,445	-	5,650
Death rate adjusted to 95%	5,445	-	5,650	-
Interest rate of premium deposit increase by 0.5%	132,503	-	131,208	-
Interest rate of premium deposit decease by 0.5%	-	132,503	-	131,208

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(23) Other liabilities

	2015.12.31	2014.12.31
Unearned receipts	$308,331	$595,670
Temporary receipts	1,414,573	1,470,370
Guarantee deposits received	3,219,076	1,571,929
Deferred income	1,342,779	1,318,150
Others	427,160	668,367
Total	$6,711,919	$5,624,486

(24) Capital Stock

As of 31 December 2015 and 31 December 2014, the Bank had issued outstanding capital stock of $69,479,605 and $67,112,762 divided into 6,947,961 and 6,711,276 thousand common shares, respectively, with par value $10 per share.

The recapitalization of undistributed earnings of $2,366,843 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 2015. The recapitalization was approved by the Financial Supervisory commission and the recapitalization record date was 6 July 2015. The authorized share capital amounted to $69,479,605 after recapitalization.

The recapitalization of undistributed earnings of $2,444,268 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. The recapitalization was approved by the Financial Supervisory commission and the recapitalization record date was 23 June 2014. The authorized share capital amounted to $67,112,762 after recapitalization.

(25) Capital reserves

	2015.12.31	2014.12.31
Capital reserves from the merger Bank	$10,949,303	$10,949,303
Additional paid-in capital	13,007,302	13,007,302
Others	12,807	12,807
Total	$23,969,412	$23,969,412

(26) Retained earnings

A. 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%.

However, according to the addition of Article 235-1 of the Company Act announced on 20 May 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employee remuneration", after deducting and setting aside an amount equal to the cumulative losses (in any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration could be distributed to employees of affiliated enterprises meeting certain criteria.

The Bank expects to amend the related regulations in the Company's Articles of Incorporation according to the aforementioned addition.

B. 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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. Accounting to Order No. Financial-Supervisory-Securities-Corporate-1030000140 and Financial-Supervisory-Securities-Corporate-1030006415, on the first-time adoption of fair value model for investment properties subsequent measurement, the Bank shall set aside an equal amount of special reserve with transfer the fair value increment of investment properties to retained earnings. After transferring the fair value increment of investment properties to retained earnings, if the Bank could not set aside the enough amount to special reserve, the Bank could only set aside the amount according to the retained earnings balance, and the special reserve that is not enough to be set aside would not be counted in the accumulated fair value increment of investment properties.

When the Bank adopts the fair value model for investment properties subsequent measurement, the Bank shall set aside an equal to amount of special reserve when transfer the fair value increment of investment properties.

For any subsequent reversal of accumulated fair value increment of investment properties or disposal of investment properties, the amount reversed may be distributed.

In 2014, the Bank changed its subsequent measurement of investment properties from cost model to fair value model. According to order No. Financial-Supervisory-Securities-Corporate-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 $1,619,109 was recognized as special reserve.

The Bank has reversed special reserve of investment properties to retained earnings during the year ended 31 December 2015 and 2014 as results of the use, disposal or reclassification of related assets in the amounts set out below:

	Investment properties	Others	Total
2014.1.1	$1,619,109	$271,009	$1,890,118
Reverse of special reserve	-	-	-
Disposal of investment properties	(9,166)	-	(9,166)
2014.12.31	1,609,943	271,009	1,880,952
Set aside special reserve	67,381	-	67,381
Disposal of investment properties	(33,796)	-	(33,796)
2015.12.31	$1,643,528	$271,009	$1,914,537

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

D. On 17 March 2016 and 30 April 2015, 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:

	2015		2014	
	Amount	Dividend per share	Amount	Dividend per share
Legal reserves	$5,585,874	$-	$5,300,609	$-
Cash dividends	10,421,940	1.50	10,066,914	1.50
Stock dividends	2,620,210	0.38	2,366,843	0.35

Note: Bonus to employees in the amount of $1,500 were deducted from current expenses.

Please refer to Note 6.(34) for further details on employees' compensation and remuneration to directors and supervisors.

(27) Unrealized gains or losses on available-for-sale financial assets

	2015	2014
Beginning balance	$3,009,677	$1,292,205
Unrealized gains or losses on available-for-sale financial assets	72,013	1,919,512
Income tax of unrealized gains or losses on available-for-sale financial assets	(52,985)	(234,927)
Share of unrealized gains or losses on available-for-sale financial assets of associates accounted for using the equity method	24,149	32,887
Ending balance	$3,052,854	$3,009,677

(28) Remeasurements of defined benefit plans

	2015	2014
Beginning balance	$(548,268)	$(531,201)
Remeasurements of defined benefit plans	(545,691)	(19,772)
Income tax of remeasurements of defined benefit plans	92,767	3,361
Share of Income tax of remeasurements of defined benefit plans of associates accounted for using the equity method	(941)	(656)
Ending balance	$(1,002,133)	$(548,268)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(29) Non-controlling interests

	2015	2014
Beginning balance	$3,673,213	$3,438,990
Profit attributable to non-controlling interests	168,604	186,653
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of a foreign operation	160,121	202,209
Unrealized gains (losses) from available-for-sale financial assets	(27,831)	10,576
Change in non-controlling interests	(213,206)	(165,215)
Ending balance	$3,760,901	$3,673,213

The Band has elected to measure the non-controlling interest in Indovina Bank at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

(30) Net interest income

	2015	2014
Interest income		
Discounts and loans	$27,571,656	$26,784,920
Factoring receivable	533,026	1,060,924
Due from banks and call loans to banks	4,284,201	4,288,908
Securities	7,865,485	6,355,210
Credit cards	2,085,332	2,160,040
Others	132,785	102,406
Subtotal	42,472,485	40,752,408
Interest expense		
Deposits	11,942,184	11,084,714
Due to Central Bank and other banks	296,344	372,918
Funds borrowed from the Central Bank and other banks	149,886	404,199
Structured products	1,496,118	1,314,949
Financial debentures	1,472,830	1,515,500
Others	386,555	281,008
Subtotal	15,743,917	14,973,288
Net interest income	$26,728,568	$25,779,120

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(31) Net fee income

	2015	2014
Fee income:		
Trust business	$2,610,565	$2,694,084
Cross-selling marketing	6,114,936	3,875,376
Credit card business	4,875,162	4,345,603
Loan business	1,402,240	1,395,151
Others	1,753,644	1,757,103
Subtotal	16,756,547	14,067,317
Fee expense:		
Credit card business	1,646,435	1,509,021
Others	766,608	752,795
Subtotal	2,413,043	2,261,816
Net fee income	$14,343,504	$11,805,501

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

	2015	2014
Stock	$18,919	$719,593
Short-term bills	702,067	(1,519,026)
Funds	(1,194)	-
Bonds	(1,134,283)	5,091,849
Derivative financial instruments	1,872,933	(25,802)
Total	$1,458,442	$4,266,614

Realized gains or losses on financial assets and liabilities at fair value through profit or loss include interest income $879,679 and $755,597, interest expense $1,589,071 and $335,245, and gains on disposal of financial assets or liabilities at fair value through profit or loss $1,579,958 and $3,653,200 during the years ended 31 December 2015 and 2014, respectively.

(33) Other net non-interest income

	2015	2014
The derivative item that in order to hedge risk	$339,341	$387,553
Rental income from operating assets	224,514	154,975
Rental income from investment properties	20,091	79,971
Gain (Loss) on disposal of property and equipment	(259)	33,886
Gain on disposal of investment properties	37,277	57,382
Gain (Loss) on valuation of investment properties	(15,343)	(28,314)
Others	774,721	379,039
Total	$1,380,342	$1,064,492

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(34) Employee benefits expenses

	2015	2014
Salary	$9,304,315	$8,277,669
Insurance	790,833	747,182
Post-employment benefit	490,013	520,274
Others	690,101	620,194
Total	$11,275,262	$10,165,319

A resolution was passed at a Board of Directors meeting of the Bank held on 17 March 2016 to amend the Articles of Incorporation of the Company. According to the resolution, 0.05% of profit of the current year is distributable as employees' compensation. However, the Bank's accumulated losses shall have been covered. The Bank may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. The Articles of Incorporation are to be amended in the shareholders' meeting in 2016. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of current year, the Bank estimated the amounts of the employees' compensation for the year ended 31 December 2015 to be 0.05 % of profit of current year, recognized as employee benefits expense. A resolution was passed at a Board of Directors meeting held on 17 March 2016 to distribute $10,513 in cash as employees' compensation.

The estimation of employee bonus for the year ended 31 December 2014 was based on the average actual payment over the past three year and recognized as employee benefits 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. No material differences exist between the estimated amount and the actual distribution of the employee bonuses for the year ended 31 December 2014.

(35) Depreciation and amortization expenses

	2015	2014
Depreciation expenses - property and equipment	$951,950	$877,541
Amortization expenses - intangible assets	225,296	189,651
Total	$1,177,246	$1,067,192

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(36) Other general and administrative expenses

	2015	2014
Utilities expenses	$193,276	$239,694
Postage expenses	508,557	481,864
Rental expenses	1,577,964	1,367,194
Business promotion expenses	1,426,537	1,797,413
Product promotion expenses	2,028,313	1,991,795
Cash delivery expenses	288,961	253,059
Insurance expenses	582,832	534,528
Tax expenses	2,152,238	1,468,965
Others	3,639,621	3,437,398
Total	$12,398,299	$11,571,910

(37) Components of other comprehensive income

2015

	Arising during the period	Reclassification adjustment during the period	Other comprehensive income	Income tax relating to components of other comprehensive income (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurement of defined benefit plans	$(545,691)	$-	$(545,691)	$92,767	$(452,924)
Revaluation surplus on properties	92,743	-	92,743	(607)	92,136
Change of designated financial liabilities at fair value through profit or loss resulting from credit risk	42,544	-	42,544	(7,232)	35,312
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(1,177)	-	(1,177)	-	(1,177)
To be classified to profit of loss:					
Exchange differences resulting from translating the financial statement of a foreign operation	1,142,965	-	1,142,965	(167,084)	975,881
Unrealized gains on available-for-sale financial assets	2,743,318	(2,726,967)	16,351	(52,985)	(36,634)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	51,980	-	51,980	-	51,980
Total	$3,526,682	$(2,726,967)	$799,715	$(135,141)	$664,574

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2014

	Arising during the period	Reclassification adjustment during the period	Other comprehensive income	Income tax relating to components of other comprehensive income (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurement of defined benefit plans	$(19,772)	$-	$(19,772)	$3,361	$(16,411)
Revaluation surplus on properties	(18,717)	-	(18,717)	2,850	(15,867)
Change of designated financial liabilities at fair value through profit or loss resulting from credit risk	58,013	-	58,013	(9,862)	48,151
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(484)	-	(484)	-	(484)
To be classified to profit of loss:					
Exchange differences resulting from translating the financial statement of a foreign operation	1,529,151	-	1,529,151	(225,579)	1,303,572
Unrealized gains on available-for-sale financial assets	3,277,284	(1,336,621)	1,940,663	(234,927)	1,705,736
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	22,312	-	22,312	-	22,312
Total	$4,847,787	$(1,336,621)	$3,511,166	$(464,157)	$3,047,009

(38) Income tax

A. 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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. The major components of income tax expense are as follows:

Income tax (expense) income recognized in profit or loss

	2015	2014
Current income tax (expense) income:		
Current income tax charge	$(2,994,806)	$(2,721,515)
Adjustments in respect of current income tax of prior periods	755,484	201,482
Deferred tax (expense) income:		
Deferred tax (expense) income relating to origination and reversal of temporary differences	(176,978)	(256,309)
Income tax of overseas subsidiaries	(96,283)	(108,760)
Income tax expense	$(2,512,583)	$(2,885,102)

Income tax relating to components of other comprehensive income

	2015	2014
Deferred tax (expense) income:		
Remeasurements of defined benefit plans	$92,767	$3,361
Revaluation surplus on properties	(607)	2,850
Designated as at fair value through profit or loss as financial liabilities of change from credit risk	(7,232)	(9,862)
Exchange differences resulting from translating the financial statements of a foreign operation	(167,084)	(225,579)
Unrealized gains (losses) from available-for-sale financial assets	(52,985)	(234,927)
Income tax relating to components of other comprehensive income	$(135,141)	$(464,157)

C. Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	2015	2014
Accounting profit (loss) before tax from continuing operations	$21,279,481	$20,699,596
At the Bank's statutory income tax rate of 17%	$(3,617,512)	$(3,518,931)
Tax effect of revenues exempt from taxation	284,125	1,495,497
Tax effect of expenses not deductible for tax purposes	(6,800)	(6,800)
Tax effect of deferred tax assets/liabilities	230,659	(713,796)
Income tax of overseas branches	(62,256)	(233,795)
Adjustments in respect of current income tax of prior periods	755,484	201,483
Income tax of overseas subsidiaries	(96,283)	(108,760)
Total income tax expense recognized in profit or loss	$(2,512,583)	$(2,885,102)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

D. Deferred tax assets (liabilities) relating to the following:

2015

	2015.01.01	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	2015.12.31
Temporary differences				
Allowance for bad debt	$589,088	$62,219	$-	$651,307
Revaluations of financial assets at fair value through profit or loss	(74,659)	(93,109)	(7,232)	(175,000)
Fair value adjustments on investment property	(94,299)	(77,177)	(607)	(172,083)
Revaluations of available-for-sale investments to fair value	(219,678)	-	(52,985)	(272,663)
Impairment on property and equipment	104,644	8,064	-	112,708
Investments accounted for using the equity method	(84,206)	(4,457)	-	(88,663)
Fair value adjustments arising in business combinations	(383,044)	(60,820)	-	(443,864)
Reserve for land value increment tax	(190,765)	2,705	-	(188,060)
Pensions	341,756	(7,162)	84,079	418,673
Preferential interest rate deposits	106,616	(12,448)	8,688	102,856
Exchange differences resulting from translating the financial statements of a foreign operation	(162,273)	-	(167,084)	(329,357)
Deferred income on customer loyalty programmes	224,085	4,188	-	228,273
Others	9,015	1,019	-	10,034
Deferred tax expense / (income)		$(176,978)	$(135,141)	
Net deferred tax assets/(liabilities)	$166,280			$(145,839)
Net deferred income tax assets / (liabilities) of overseas branches	$66,193			$90,260
Net deferred income tax assets / (liabilities) of overseas subsidiaries	$(44,421)			$(17,176)
Reflected in balance sheet as follows:				
Deferred tax assets	$1,689,912			$1,864,066
Deferred tax liabilities	$(1,501,860)			$(1,936,821)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2014

	2014.01.01	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	2014.12.31
Temporary differences				
Allowance for bad debt	$612,304	$(23,216)	$-	$589,088
Impairment on foreclosed properties	3,856	(3,856)	-	-
Revaluations of financial assets at fair value through profit or loss	(10,804)	(53,993)	(9,862)	(74,659)
Fair value adjustments on investment property	10,286	(107,435)	2,850	(94,299)
Revaluations of available-for-sale investments to fair value	15,249	-	(234,927)	(219,678)
Impairment on property and equipment	95,181	9,463	-	104,644
Investments accounted for using the equity method	(86,271)	2,065	-	(84,206)
Fair value adjustments arising in business combinations	(322,224)	(60,820)	-	(383,044)
Reserve for land value increment tax	(160,100)	(30,665)	-	(190,765)
Pensions	340,986	(2,591)	3,361	341,756
Preferential interest rate deposits	107,029	(413)	-	106,616
Exchange differences resulting from translating the financial statements of a foreign operation	63,306	-	(225,579)	(162,273)
Deferred income on customer loyalty programmes	209,666	14,419	-	224,085
Others	8,282	733	-	9,015
Deferred tax expense / (income)		$(256,309)	$(464,157)	
Net deferred tax assets/(liabilities)	$886,746			$166,280
Net deferred income tax assets / (liabilities) of overseas branches	$61,208			$66,193
Net deferred income tax assets / (liabilities) of overseas subsidiaries	$(58,790)			$(44,421)
Reflected in balance sheet as follows:				
Deferred tax assets	$1,566,757			$1,689,912
Deferred tax liabilities	$(677,593)			$(1,501,860)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

E. Unrecognized deferred tax assets

As of 31 December 2015, 31 December 2014 and 1 January 2014, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amounted to $493,052, $512,647 and $166,699, respectively.

F. Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Bank did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Bank's overseas subsidiaries.

G. Imputation credit information

	2015.12.31	2014.12.31
Balances of imputation credit amount	$58,201	$70,148

The expected creditable ratio for 2015 and the actual creditable ratio for 2014 were 0.31% and 0.15%, respectively.

The Bank's earnings generated in the year ended 31 December 1997 and prior years have been fully appropriated. As of 31 December 2015, the undistributed earnings amounted to $18,606,155 arose from earnings in 1998 and thereafter.

H. The assessment of income tax returns

As of 31 December 2015, the assessment of the income tax returns of the Bank is as follows:

	The assessment of income tax returns
The Bank	Assessed and approved up to 2009

The income tax return of 2008 had been assessed; however, the Bank has invoked the administrative remedy to withholding tax that have not been deducted and employee benefit at the year.

The income tax return of 2009 had been assessed; however, the Bank has invoked the administrative remedy to cases about goodwill amortization from mergering with Lucky Bank and China United Trust & Investment Corp and employee benefit of that year.

(39) 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.

	2015	2014
Profit attributable ordinary to equity holders of the parent (in thousands dollars)	$18,598,294	$17,627,841
Retroactive adjustment weight-average shares outstanding (in thousands shares)	6,947,961	6,947,961
Earnings per share (in dollar)	$2.68	$2.54

The recapitalization of undistributed earnings of $2,366,843 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 2015. The recapitalized was approved by the Financial Supervisory commission and the recapitalization record date was 6 July 2015. The authorized share capital amounted to $69,479,605 after recapitalization.

The recapitalization of undistributed earnings of $2,444,268 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. The recapitalized was approved by the Financial Supervisory commission and the recapitalization record date was 23 June 2014. The authorized share capital amounted to $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.

7. Related parties transactions

Significant transactions with the related parties are summarized as follows:

(1) Loans and Deposits

	2015.12.31 Account balance		2014.12.31 Account balance	
Accounts/Related parties	Amount	% of Account	Amount	% of Account
Loans				
Associates				
Taiwan Real-estate Management Corp.	$-	-	$55,000	0.01%
Other related parties				
Cathay Real Estate Development Co., Ltd.	10,000	-	280,000	0.02%
Cathay General Hospital	-	-	99,000	0.01%
Tien-Tai energy Corp.	104,498	0.01%	112,866	0.01%
Liang Ting Industrial Company	44,935	-	82,716	0.01%
Others	1,198,989	0.11%	1,257,566	0.11%
Subtotal	1,358,422	0.12%	1,832,148	0.16%
Total	$1,358,422	0.12%	$1,887,148	0.17%

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2015.12.31 Account balance		2014.12.31 Account balance	
Accounts/Related parties	Amount	% of Account	Amount	% of Account
Deposits				
Parent company				
Cathay Financial Holding Co., Ltd.	$728,634	0.04%	$12,271	-
Other related parties				
Cathay Life Insurance Co., Ltd.	19,438,526	1.03%	29,947,140	1.72%
Cathay Century Insurance Co., Ltd.	1,391,722	0.07%	1,380,309	0.08%
Cathay Securities Corp.	2,603,833	0.14%	2,932,284	0.17%
Cathay Futures Corp.	2,514,909	0.13%	2,006,007	0.11%
Cathay Pacific Venture Capital Co., Ltd.	63,471	-	17,749	-
Cathay Securities Investment Trust Co., Ltd.	142,854	0.01%	297,623	0.02%
Cathay Real Estate Development Co., Ltd.	80,649	0.01%	375,029	0.02%
Cathay Life Insurance (Vietnam) Co., Ltd.	9,241	-	9,086	-
Cathay Century Insurance (Vietnam) Co., Ltd.	176,432	0.01%	118,655	0.01%
Cathay Dragon Fund etc.	24,098	-	28,854	-
Conning Holdings Corp.	91,757	0.01%	-	-
Symphox Information Co., Ltd.	170,947	0.01%	153,609	0.01%
Others	13,039,785	0.69%	9,742,777	0.56%
Subtotal	39,748,224	2.11%	47,009,122	2.70%
Total	$40,476,858	2.15%	$47,021,393	2.70%

	Interest Income	
Accounts/Related parties	2015	2014
Loans		
Associates		
Taiwan Real-estate Management Corp.	$300	$1,117
Other related parties		
Cathay Real Estate Development Co., Ltd.	2,105	1,807
Cathay General Hospital	952	2,921
Tien-Tai energy Corp.	3,791	4,099
Liang Ting Industrial Company	1,333	163
Others	25,812	24,797
Subtotal	33,993	33,787
Total	$34,293	$34,904

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Accounts/Related parties	Interest Expense 2015	Interest Expense 2014
Deposits		
Parent company		
Cathay Financial Holding Co., Ltd.	$233	$110
Other related parties		
Cathay Life Insurance Co., Ltd.	23,975	21,682
Cathay Century Insurance Co., Ltd.	8,635	9,616
Cathay Securities Corp.	5,449	5,191
Cathay Futures Corp.	23,218	23,731
Cathay Pacific Venture Capital Co., Ltd.	172	291
Cathay Securities Investment Trust Co., Ltd.	1,474	3,975
Cathay Real Estate Development Co., Ltd.	94	148
Cathay Life Insurance (Vietnam) Co., Ltd.	226	171
Cathay Century Insurance (Vietnam) Co., Ltd.	5,480	6,210
Cathay Dragon Fund etc.	2	4,888
Conning Holdings Corp.	131	-
Symphox Information Co., Ltd.	1,402	654
Others	114,004	105,204
Subtotal	184,262	181,761
Total	$184,495	$181,871

Accounts / Related parties	Account balance 2015.12.31	Account balance 2014.12.31
Due from commercial banks		
Other related parties		
Vietinbank	$4,404,972	$5,035,169
Due to commercial banks		
Other related parties		
Vietinbank	-	301,321

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Accounts / Related parties	Interest Income (Expense) 2015	2014
Call loans to banks		
Other related parties		
Vietinbank	$-	$28,198
Due from commercial banks		
Other related parties		
Vietinbank	126,580	171,182
Call loans from banks		
Other related parties		
Vietinbank	(70,521)	(70,906)
Due to commercial banks		
Other related parties		
Vietinbank	(542)	(85,497)

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

(2) Transactions under resale and repurchase agreements

Accounts/Related parties	Account Balance 2015.12.31	2014.12.31
Securities sold under agreements to repurchase		
Other related parties		
Liang Ting Industrial Company	$-	$16,105

Accounts/Related parties	Interest Expense 2015	2014
Securities sold under agreements to repurchase		
Other related parties		
Liang Ting Industrial Company	$14	$185

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(3) Lease

Accounts/Related parties	2015	2014	Payment term
Rental income			
Other related parties			
Cathay Life Insurance Co., Ltd.	$61,620	$59,953	Monthly
Cathay Century Insurance Co., Ltd.	8,902	8,950	Monthly
Cathay Securities Corp.	9,137	8,751	Monthly
Culture and Charity Foundation of Cathay United Bank	4,633	4,633	Monthly
Rental expense			
Other related parties			
Cathay Life Insurance Co., Ltd.	426,803	399,485	Monthly
Cathay Real Estate Development Co., Ltd.	22,995	44,246	Monthly

Accounts/Related parties	2015.12.31	2014.12.31
Refundable deposits		
Other related parties		
Cathay Life Insurance Co., Ltd.	$101,838	$99,771
Cathay Real Estate Development Co., Ltd.	4,605	7,399

Accounts/Related parties	2015.12.31	2014.12.31
Guarantee deposit received		
Other related parties		
Cathay Life Insurance Co., Ltd.	$15,910	$15,293
Cathay Securities Corp.	2,966	2,803
Cathay Century Insurance Co., Ltd.	2,403	2,383

Accounts/Related parties	2015	2014
(4) Commissions and handling fees income		
Other related parties		
Cathay Life Insurance Co., Ltd.	$6,753,538	$4,362,024
Cathay Century Insurance Co., Ltd.	98,043	90,595
Cathay Securities Co., Ltd.	17,684	12,968
Cathay Securities Investment Trust Co., Ltd.	38,623	35,047
Cathay Securities Investment Consulting Co., Ltd.	25,508	22,146
Cathay Real Estate Development Co., Ltd.	3,116	-

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Accounts/Related parties	2015	2014
(5) Other operating income		
Parent company		
Cathay Financial Holding Co., Ltd.	$6,940	$6,365
Other related parties		
Cathay Life Insurance Co., Ltd.	5,549	4,497
Cathay Century Insurance Co., Ltd.	-	379
(6) Operating expenses		
Subsidiaries		
Seaward Card Co., Ltd.	189,564	190,965
Other related parties		
Cathay Life Insurance Co., Ltd.	136,155	152,080
Symphox Information Co., Ltd.	482,247	477,694
Cathay Real Estate Development Co., Ltd.	4,394	5,333
Cathay General Hospital	-	82
Lin Yuan Property Management and Maintenance Co., Ltd.	8,065	7,619
Cathay Healthcare Inc.	13,578	14,889
Cathay Securities Co., Ltd.	7,771	2,980
(7) Insurance expenses		
Other related parties		
Cathay Life Insurance Co., Ltd.	82,007	66,907
Cathay Century Insurance Co., Ltd.	151,260	129,239

Accounts/Related parties	2015.12.31	2014.12.31
(8) Receivables		
Other related parties		
Cathay Securities Investment Trust	$4,495	$-
(9) Receivables for commission of collecting insurances		
Other related parties		
Cathay Life Insurance Co., Ltd.	362,393	455,244

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Accounts/Related parties	2015.12.31	2014.12.31
(10) Refundable deposit		
Other related parties		
Cathay Futures Corp.	$41,177	$52,448
(11) Accrued expenses		
Subsidiaries		
Seaward Card Co., Ltd.	$23,872	$22,894
(12) Accounts payable		
Other related parties		
Cathay Century Insurance Co., Ltd.	9,349	338
Symphox Information Co., Ltd.	19,503	11,801
(13) Dividends Payable		
Other related parties		
Vietinbank	-	301,321
(14) Related party payables for allocation of linked-tax system		
Parent company		
Cathay Financial Holdings Co., Ltd.	419,607	229,509

Accounts/Related parties	2015	2014
(15) Key management personnel compensation		
Short-term employee benefits	$172,018	$162,877
Post-employment benefits	3,953	9,061
Total	$175,971	$171,938

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

(16) 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 $6,545 and $7,059 during the years ended 31 December 2015 and 2014, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. The Bank purchased bonus points in exchange for merchandise for the Bank's customer from Symphox Information Co., Ltd. As of 31 December 2015 and 31 December 2014, the unconverted bonus points amounted to $19,868 and $20,146 and, respectively.

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.

8. Assets pledged as security

See Note 6.

9. Commitments and contingencies

As of 31 December 2015 and 31 December 2014, the Group had the following commitments and contingent liabilities, which are not reflected in the consolidated financial statements:

(1) The Bank

	2015.12.31	2014.12.31
A. Entrusted Items and Guarantees:		
Trust and security held for safekeeping	$606,837,259	$541,504,312
Travelers checks for sale	553,863	479,398
Bills for collection	49,774,146	44,743,087
Book-entry for government bonds and depository for short-term marketable securities under management	459,375,951	473,027,900
Entrusted financial management business	8,325,261	6,697,886
Guarantees on duties and contracts	10,285,103	12,105,996
Unused commercial letters of credit	4,465,001	4,903,594
Irrevocable loan commitments	187,213,293	162,105,192
Credit card lines commitments	458,129,452	418,604,254
Underwriting securities	8,230,000	-

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. As of 31 December 2015, 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 $0.99 billion and $3.09 billion, 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.

C. According to the operating leases agreement, rentals for lease that should be paid in future are disclosed in Note 12.

(2) Indovina Bank

A. Entrusted Item and Guarantees:

	2015.12.31	2014.12.31
Financial guarantee contracts	$1,790,458	$1,727,450
Unused commercial letters of credit	1,206,427	964,503

B. According to the operating leases agreements of Indovina Bank, rentals for lease that should be paid in the future listed are as follows:

	2015.12.31	2014.12.31
Not later than one year	$42,848	$38,788
Later than one year and not later than five year	111,768	79,871
Later than five years	33,365	42,177

(3) CUBC Bank

A. Entrusted Item and Guarantees:

	2015.12.31	2014.12.31
Financial guarantee contracts	$549,430	$16,176
Irrevocable loan commitments	558,899	303,715
Credit card line commitments	353,016	264,908

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. According to the operating leases agreements of CUBC Bank, rentals for lease that should be paid in the future listed are as follows:

	2015.12.31	2014.12.31
Not later than one year	$13,753	$4,085
Later than one year and not later than five year	39,484	6,854
Later than five years	54,364	1,587

10. Losses due to major disasters

None.

11. Significant subsequent events

None.

12. Other

(1) Disclosure of financial instruments information

A. Information of fair value

	2015.12.31	
	Carrying value	Fair value
Financial assets		
Financial assets at fair value through profit or loss	$254,927,251	$254,927,251
Available-for-sale financial assets	134,023,021	134,023,021
Held-to-maturity financial assets	52,518,777	54,133,652
Investment in debt securities with no active market	442,764,138	443,687,437
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	47,471,390	47,471,390
Due from the Central Bank and call loan to banks	100,169,436	100,169,436
Securities purchased under agreements to resell	44,508,936	44,508,936
Receivable, net	82,020,776	82,020,776
Discounts and loans, net	1,127,807,127	1,127,807,127
Other financial assets, net	1,350	1,350
Other assets, net	35,439,337	35,439,337
Subtotal	1,437,418,352	1,437,418,352
Total	$2,321,651,539	$2,324,189,713

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2015.12.31	
	Carrying value	Fair value
Financial liabilities		
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	$41,226,909	$41,226,909
Securities sold under agreements to repurchase	54,037,877	54,037,877
Payables	18,313,238	18,313,238
Deposits and remittances	1,881,657,210	1,881,657,210
Financial debentures payable	51,900,000	51,900,000
Other financial liabilities	67,227,106	67,227,106
Others	3,219,076	3,219,076
Subtotal	2,117,581,416	2,117,581,416
Financial liabilities at fair value through profit or loss		
Held for trading	59,799,330	59,799,330
Designated at fair value through profit or loss	40,598,667	40,598,667
Subtotal	100,397,997	100,397,997
Total	$2,217,979,413	$2,217,979,413

	2014.12.31	
	Carrying value	Fair value
Financial assets		
Financial assets at fair value through profit or loss	$151,777,614	$151,777,614
Available-for-sale financial assets	86,472,645	86,472,645
Held-to-maturity financial assets	53,070,618	55,264,127
Investment in debt securities with no active market	369,327,713	370,042,780
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	126,453,215	126,453,215
Due from the Central Bank and call loan to banks	151,289,044	151,289,044
Securities purchased under agreements to resell	33,059,521	33,059,521
Receivable, net	78,822,672	78,822,672
Discounts and loans, net	1,119,281,103	1,119,281,103
Other financial assets, net	9,678	9,678
Other assets, net	13,375,301	13,375,301
Subtotal	1,522,290,534	1,522,290,534
Derivative financial assets for hedging	448,745	448,745
Total	$2,183,387,869	$2,186,296,445

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2014.12.31	
	Carrying value	Fair value
Financial liabilities		
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	$58,816,432	$58,816,432
Funds borrowed from the Central Bank and other banks	1,585,900	1,585,900
Securities sold under agreements to repurchase	59,689,306	59,689,306
Payables	22,148,652	22,148,652
Deposits and remittances	1,739,023,267	1,739,023,267
Financial debentures payable	67,613,949	67,613,949
Other financial liabilities	79,842,351	79,842,351
Others	1,571,929	1,571,929
Subtotal	2,030,291,786	2,030,291,786
Financial liabilities at fair value through profit or loss		
Held for trading	24,968,191	24,968,191
Designated at fair value through profit or loss	32,746,635	32,746,635
Subtotal	57,714,826	57,714,826
Total	$2,088,006,612	$2,088,006,612

B. The methodologies and assumptions used by the Group 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. Investments 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 insignificant 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. 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.

f. 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.

g. 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.

h. Under the assumption that the Bank will not default, the Bank determines its credit value adjustment by multiplying three factors, probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Bank calculates its debit value adjustments by multiplying three factors, PD, LGD, and EAD of the Bank.

The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

The Bank sets estimated LGD at 60 % for most of the counterparties, but may apply other assumptions when risk character and data are available.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

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

1st Level: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
2nd Level: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
3rd Level: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognized in the financial statement on a recurring basis, the bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. The Bank measures financial instruments and investment properties based on recurring basis, and assets held for sale are measured on the lower of non-recurring basis and fair value minus cost of goods sold. The Bank's fair value hierarchy is described as follows:

	2015.12.31			
Item	1st Level	2nd Level	3rd Level	Total
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Stocks	$120,041	$-	$-	$120,041
Bonds	2,923,942	12,921,304	-	15,845,246
Others	119,916	173,280,387	-	173,400,303
Available-for-sale financial assets				
Stocks	15,125,162	-	3,115,497	18,240,659
Bonds	59,864,668	48,746,756	-	108,611,424
Others	3,705,546	-	-	3,705,546
Investment properties	-	-	1,635,249	1,635,249
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss				
Bonds	-	40,598,667	-	40,598,667
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	16,104	42,327,206	22,517,930	64,861,240
Liabilities				
Financial liabilities at fair value through profit or loss	-	37,281,400	22,517,930	59,799,330

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2014.12.31			
Item	1st Level	2nd Level	3rd Level	Total
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets for trading				
Stocks	$50,929	$-	$-	$50,929
Bonds	-	12,020,042	-	12,020,042
Others	-	109,953,558	-	109,953,558
Available-for-sale financial assets				
Stocks	11,188,902	-	3,687,006	14,875,908
Bonds	31,258,413	37,235,518	-	68,493,931
Others	638,629	-	-	638,629
Investment properties	-	-	4,308,182	4,308,182
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss				
Bonds	$-	$32,746,635	$-	$32,746,635
Financial debentures payable	-	10,713,949	-	10,713,949
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	1,140	21,774,914	7,911,860	29,687,914
Derivative financial assets for hedging	-	448,745	-	448,745
Liabilities				
Financial liabilities at fair value through profit or loss	2,403	17,101,893	7,854,582	24,958,878

Transfers between 1st Level and 2nd Level during the period

For the year ended 31 December 2015, the Bank transferred government bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from 2nd Level to 1st Level. A total of $1,561,496 thousand was transferred as its market price was obtainable.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Reconciliation for fair value measurements in 3rd Level for movements

Reconciliation for fair value measurements in 3rd Level of the fair value hierarchy for movements during the period is as follows:

	Assets			Liabilities
	At fair value through profit or loss	Available-for-sale	Investment	At fair value through profit or loss
	Derivative	Stock	Properties	Derivatives
Beginning balances as at 1 January 2015	$7,911,860	$3,687,006	$4,308,182	$7,854,582
Total gains and losses recognized				
Amount recognized in profit or loss				
Gain on financial assets and liabilities at fair value through profit or loss	14,594,317	-	-	14,649,941
Gain on disposal of investment properties	-	-	37,277	-
Loss on valuation of investment properties	-	-	(15,343)	-
Amount recognized in other comprehensive income				
Realized losses on available-for-sale financial assets	-	(297,885)	-	-
Acquisitions or issues	40,558	43,875	-	40,558
Transfers to property and equipment	-	-	(2,504,140)	-
Disposals or settlements	(28,805)	(317,499)	(190,727)	(27,151)
Ending balances as at 31 December 2015	$22,517,930	$3,115,497	$1,635,249	$22,517,930

	Assets			Liabilities
	At fair value through profit or loss	Available-for-sale	Investment	At fair value through profit or loss
	Derivative	Stock	properties	Derivatives
Beginning balances as at 1 January 2014	$2,204,161	$3,682,839	$4,479,508	$2,204,161
Total gains and losses recognized				
Amount recognized in profit or loss				
Gain on financial assets and liabilities at fair value through profit or loss	5,081,720	-	-	5,024,442
Gain on disposal of investment properties	-	-	53,249	-
Impairment loss of investment properties	-	-	(28,465)	-
Loss on valuation of investment properties	-	-	(28,314)	-
Amount recognized in other comprehensive income				
Unrealized losses on available-for-sale financial assets	-	(26,672)	-	-
Acquisitions or issues	661,228	30,846	-	661,228
Transfers to property and equipment	-	-	75,626	-
Disposals or settlements	(35,249)	(7)	(243,422)	(35,249)
Ending balances as at 31 December 2014	$7,911,860	$3,687,006	$4,308,182	$7,854,582

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Total gains recognized for the years ended 31 December 2015 and 2014 in the table above contain unrealized gains and losses related to assets on hand as at 31 December 2015 and 2014 in the amount of $14,577,320 and $5,053,406, respectively.

Total losses recognized for the years ended 31 December 2015 and 2014 in the table above contain unrealized gains and losses related to liabilities on hand as at 31 December 2015 and 2014 in the amount of $14,649,941 and $5,024,442, respectively.

Information on 3rd level significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within 3rd Level of the fair value hierarchy is as follows:

2015.12.31

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available-for-sale				
Stocks	Market approach	Discount for lack of marketability	20%~25%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	Cost of equity rate	6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
Non-Financial Assets				
Investment properties	income approach and comparison approach	Direct capitalization rate	1.60%~ 2.85%	The higher the Rate of return on capital, the lower the fair value

Valuation process used for fair value measurements categorized within 3rd Level of the fair value hierarchy

The Bank's Risk Management Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies at each reporting date.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. Fair value measurement hierarchy of the Bank's assets and liabilities not measured at fair value but for which the fair value is disclosed

2015.12.31	1st Level	2st Level	3st Level	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Financial assets held to maturity				
Bonds	$48,389,606	$2,890,297	$-	$51,279,903
Debt instrument investments for which no active market exists				
Bonds	11,289,247	692,732	1,709,010	13,690,989
Others	-	429,996,448	-	429,996,448
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Financial debentures payable	-	-	51,900,000	51,900,000

(3) Transfers of financial assets

A. Financial assets transferred that have not been fully removed

Transferred financial assets that are part of the Bank daily operations that do not meet the criteria for full removal are mostly made up of debt securities used as counterparty collateral for repurchase agreements or equity securities lent out as part of securities lending agreement. The nature of these transactions are secured loans, and reflects the liability where the Bank are obligated to repurchase the transferred financial assets according to a fixed price in future periods. With respect to such transactions, the Bank will not be able to use, sell or pledge such transferred financial assets during the effective period. However the Bank is still exposed to interest rate risk and credit risk, hence they are not removed.

The following table analyses financial assets and financial liabilities that have not been fully removed:

2015.12.31	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair value	Net fair value
Available for sale Financial Assets					
Repurchase Agreements	$34,522,584	$43,591,852	$33,452,121	$43,591,852	$(10,139,731)
Held to Maturity Financial Assets					
Repurchase Agreements	10,571,555	10,446,025	10,571,555	10,446,025	125,530

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(4) Offsetting of Financial assets and liabilities

The Bank own financial instruments that do not offset in accordance with IAS 32 but it executed enforceable master netting arrangement or other similar agreements with counterparties. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting of financial assets and financial liabilities is disclosed as follows:

2015.12.31						
Financial assets subject to offsetting, master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	$64,845,136	$-	$64,845,136	$59,799,330	$1,752,225	$3,293,581

2015.12.31						
Financial liabilities subject to offsetting, master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	$59,799,330	$-	$59,799,330	$59,799,330	$-	$-

2014.12.31						
Financial assets subject to offsetting, master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	$29,686,774	$-	$29,686,774	$24,956,475	$631,236	$4,099,063

2014.12.31						
Financial liabilities subject to offsetting, master netting arrangement or similar agreement						
	Gross amount of recognized financial liabilities	Gross amount offset in the balance sheet	Amount presented in the balance sheet	Amount not offset in the balance sheet (d)		
Item	(a)	(b)	(c)= (a)- (b)	Financial instruments (Note)	Cash collateral received/pledged	Net amount (e)= (c)- (d)
Derivative Financial Instruments	$24,956,475	$-	$24,956,475	$24,956,475	$-	$-

Note: Master netting arrangement and non-cash collateral are included.

(5) Financial risk management

Risk control and hedging strategy

The Bank's risk control and hedging strategy follows 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 identify its risks and the Bank followed the spirit 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 illustrated as 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 operational 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.

(6) 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

A. Identification and measurement

The operations 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 an 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.

B. 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 report to the executive management for approval and report to the board of directors regularly.

Risk management policy of the 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 is held for trading, which is intended to earn the profit from bid-ask spread. Any positions aside from the above trading book will be in the banking book.

A. Strategy

In order to control market risk effectively and ensure flexibility in operating the transaction strategy, the Bank carries out 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.

B. Policy and procedure

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

C. Valuation policy

If the financial instruments of trading book have market values, they should be evaluated at least once each day using 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.

D. 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 the risk management committee regularly.

Interest risk management of trading book

A. 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.

B. 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.

C. 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.

A. 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.

B. 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 additional, 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.

C. Method of measurement

The interest 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

A. Definition of foreign exchange risk

Foreign exchange risk is the gain/loss caused by two currencies exchange at 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.

B. 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 securities price

A. Definition of risk of equity securities 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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. Purpose of risk management in equity securities prices

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

C. Procedure of risk management of equity securities prices

The Bank sets investment limit on industries, using the β 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.

D. Measured methodology

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

The Bank's risk of equity securities 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. The Bank applies historical simulation with a statistic confidence of 99% to extrapolate the VaR of one-year fluctuations. The following form indicates the VaR which is the estimation of potential amount of loss within one day. While the statistic confidence of 99% represents the possible fluctuations that would be included in assumed adverse market changes. Base on the assumption, the VaR may exceed the amounts listed in 1 of 100 days due to the price changes in the market. The overall VaR in the market may be less than the aggregate VaR of individual market risk factors.

2015.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	$825,482	$1,058,200	$596,450
Foreign exchange	374,638	528,143	224,569
Equity securities price	298,800	534,899	131,033

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2014.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	$524,614	$677,094	$311,553
Foreign exchange	223,383	576,443	112,986
Equity securities price	249,507	353,880	150,959

The Bank enters into a variety of derivatives transactions for both trading and non-trading 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 will be reported to the executive management.

Stress Test		
Market/ Product	Scenarios	2015.12.31
Stock Market	Major Stock Exchanges +15%	$2,572,190
	Major Stock Exchanges -15%	(2,496,740)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(9,315,360)
	Major Interest Rate - 100bp	9,622,370
Foreign Exchange Market	Major Currencies +3%	4,053,156
	Major Currencies -3%	(4,053,156)
Composite	Major Stock Exchanges -15%	(7,758,944)
	Major Interest Rate + 100bp	
	Major Currencies +3%	

Stress Test		
Market/ Product	Scenarios	2014.12.31
Stock Market	Major Stock Exchanges + 15%	$1,765,050
	Major Stock Exchanges - 15%	(1,765,050)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(5,908,080)
	Major Interest Rate - 100bp	5,970,250
Foreign Exchange Market	Major Currencies + 3%	3,056,861
	Major Currencies - 3%	(3,056,861)
Composite	Major Stock Exchanges -15%	(4,616,269)
	Major Interest Rate + 100bp	
	Major Currencies +3%	

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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 securities price risk

Equity securities price factor sensitivities ("Equity delta") represent the change of the equity securities price portfolio 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.

Market risk factor sensitivity of the Bank

	2015.12.31	
	Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)		
USD+1%	$791,614	$820
HKD+1%	3,279	2,193
JPY+1%	1,159	-
AUD+1%	50,243	-
CNY+1%	366,353	46,370
Interest rate factor sensitivity (PVBP)		
Yield curves (USD) parallel shift+1bp	2,400	(40,000)
Yield curves (HKD) parallel shift+1bp	-	(58)
Yield curves (JPY) parallel shift+1bp	(1)	-
Yield curves (AUD) parallel shift+1bp	-	(3,470)
Yield curves (CNY) parallel shift+1bp	(979)	(19,893)
Equity securities price factor sensitivity (Equity Delta)	-	177,200

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2014.12.31	
	Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)		
USD+1%	$630,713	$1,529
HKD+1%	3,242	2,891
JPY+1%	505	1,376
AUD+1%	23,342	-
CNY+1%	285,215	47,906
Interest rate factor sensitivity (PVBP)		
Yield curves (USD) parallel shift+1bp	702	(21,956)
Yield curves (HKD) parallel shift+1bp	-	(88)
Yield curves (JPY) parallel shift+1bp	(3)	-
Yield curves (AUD) parallel shift+1bp	-	(845)
Yield curves (CNY) parallel shift+1bp	268	(14,108)
Equity securities price factor sensitivity (Equity Delta)	-	117,670

(7) Credit risk

Credit risk represents the risk of loss that the Group 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 Group 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 Group 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:

A. 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.

B. 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 with risk management.

In order to measure the credit risk of the clients, the Bank employs the statistic methods and the professional judgment 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 conform to the reality and revise 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 tests 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.

C. 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. To 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.

Other 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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

D. 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:

a. The Bank

Off balance sheet items	Maximum exposure to credit risk	
	2015.12.31	2014.12.31
Irrevocable loan commitments	$187,213,293	$162,105,192
Credit card commitments	512,030,862	468,810,255
Unused commercial letters of credit	4,465,001	4,903,594
Guarantees on duties and contracts	10,285,103	12,105,996
Total	$713,994,259	$647,925,037

b. Indovina Bank

Off balance sheet items	Maximum exposure to credit risk	
	2015.12.31	2014.12.31
Finance guarantee contracts	$1,790,458	$1,727,450
Unused commercial letters of credit	1,206,427	964,503
Total	$2,996,885	$2,691,953

c. CUBC Bank

Off balance sheet items	Maximum exposure to credit risk	
	2015.12.31	2014.12.31
Finance guarantee contracts	$549,430	$16,176
Irrevocable loan commitments	558,899	303,715
Credit card commitments	353,016	264,908
Total	$1,461,345	$584,799

To reduce the risk from any businesses, the bank conducts an overall assessment and takes appropriate risk reduction measures, such as obtaining collaterals and guarantors. For obtaining of collaterals, the Bank has *Collateral Management Guidelines*, to ensure that collaterals meet the specific criteria and has the effect of reducing the business risk.

The management deems the Group is able to control and minimize the credit risk exposures in off-balance-sheet items as the Group uses more strict rating procedures when extending credits and conduct reviews regularly.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

E. Credit concentration risk of the Group

When the counterparties are obviously the same party, or there are several counterparties but engaging in similar business activities and sharing similar economic characteristics, and vulnerable to the same economic impacts or other changes, the credit concentration risk is apparent.

Credit concentration risk of the Group 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 Group does 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 Group according to industry and country are listed below:

	2015.12.31		2014.12.31	
Item	Amount	%	Amount	%
Industry type				
Manufacturing	$73,003,215	6.30	$91,268,082	7.93
Financial institutions and insurance	31,617,868	2.73	40,065,497	3.48
Leasing and real estate	88,419,187	7.63	89,080,389	7.74
Individuals	605,118,646	52.21	552,513,647	47.99
Others	360,808,227	31.13	378,383,937	32.86
Total	$1,158,967,143	100.00	$1,151,311,552	100.00

	2015.12.31		2014.12.31	
Item	Amount	%	Amount	%
Geographic Region				
Domestic	$1,011,651,589	87.29	$969,952,473	84.25
Asia	79,624,712	6.87	75,168,904	6.53
America	21,253,210	1.83	27,630,814	2.40
Others	46,437,632	4.01	78,559,361	6.82
Total	$1,158,967,143	100.00	$1,151,311,552	100.00

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

F. Credit quality analysis of the financial assets

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

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

2015.12.31	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal (A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card business	$38,577,214	$8,630,623	$3,289,491	$50,497,328	$165,012	$168,628	$50,830,968	$136,844	$1,306,411	$49,387,713
Others	28,917,139	3,474,241	49,961	32,441,341	5,756	535,472	32,982,569	513,752	822,681	31,646,136
Discounts and loans	665,556,901	411,800,443	26,279,299	1,103,636,643	810,525	13,570,559	1,118,017,727	3,111,620	14,211,023	1,100,695,084

2014.12.31	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal (A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card business	$36,215,384	$8,098,669	$3,211,612	$47,525,665	$127,437	$151,434	$47,804,536	$124,337	$1,460,069	$46,220,130
Others	30,659,596	2,078,710	65,478	32,803,784	4,085	41,314	32,849,183	13,245	239,149	32,596,789
Discounts and loans	699,208,322	350,838,296	40,974,472	1,091,021,090	719,295	21,477,857	1,113,218,242	5,130,139	12,544,674	1,095,543,429

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

2015.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	$231,852,442	$51,262,021	$9,253,262	$292,367,725
Unsecured personal loans	21,694,792	12,696,768	3,634,766	38,026,326
Other	205,744,426	93,884,652	6,697,306	306,326,384
Corporate banking				
Secured	21,990,638	145,217,277	3,373,012	170,580,927
Unsecured	184,274,603	108,739,725	3,320,953	296,335,281
Total	$665,556,901	$411,800,443	$26,279,299	$1,103,636,643

2014.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	$217,655,648	$53,233,632	$9,499,880	$280,389,160
Unsecured personal loans	14,417,868	9,725,173	2,858,644	27,001,685
Other	211,436,330	42,382,203	6,339,793	260,158,326
Corporate banking				
Secured	45,361,610	138,283,374	14,157,140	197,802,124
Unsecured	210,336,866	107,213,914	8,119,015	325,669,795
Total	$699,208,322	$350,838,296	$40,974,472	$1,091,021,090

c. Credit quality analysis on securities investment

2015.12.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	$108,611,424	$-	$108,611,424	$-	$-	$108,611,424	$-	$108,611,424
Stocks	8,578,743	9,661,916	18,240,659	-	140,985	18,381,644	140,985	18,240,659
Others	1,360,701	2,344,845	3,705,546	-	-	3,705,546	-	3,705,546
Held-to-maturity financial assets								
Bonds	49,571,588	40,519	49,612,107	-	-	49,612,107	-	49,612,107
Investments in debt securities with no active market								
Bonds	13,298,479	659	13,299,138	-	1,512,275	14,811,413	1,512,275	13,299,138
Others	429,465,000	-	429,465,000	-	-	429,465,000	-	429,465,000

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2014.12.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	$67,993,931	$500,000	$68,493,931	$-	$-	$68,493,931	$-	$68,493,931
Stocks	1,983,472	12,892,436	14,875,908	-	163,785	15,039,693	163,785	14,875,908
Others	256,522	382,107	638,629	-	-	638,629	-	638,629
Held-to-maturity financial assets								
Bonds	50,516,169	630,902	51,147,071	-	-	51,147,071	-	51,147,071
Investments in debt securities with no active market								
Bonds	7,272,881	385,102	7,657,983	-	1,454,521	9,112,504	1,454,521	7,657,983
Others	361,120,000	549,730	361,669,730	-	-	361,669,730	-	361,669,730

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.

2015.12.31	Less than 30 days	31 - 60 days	Total
Receivables			
Credit card business	$105,952	$59,060	$165,012
Others	4,002	1,754	5,756
Discounts and loans			
Consumer banking			
Residential mortgage loans	347,742	53,921	401,663
Unsecured personal loans	56,856	40,630	97,486
Others	211,634	49,070	260,704
Corporate banking			
Secured	-	1,918	1,918
Unsecured	40,293	8,461	48,754

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2014.12.31	Less than 30 days	31 - 60 days	Total
Receivables			
Credit card business	$75,034	$52,403	$127,437
Others	2,440	1,645	4,085
Discounts and loans			
Consumer banking			
Residential mortgage loans	235,686	90,194	325,880
Unsecured personal loans	27,609	18,503	46,112
Others	126,202	53,410	179,612
Corporate banking			
Secured	3,546	-	3,546
Unsecured	164,145	-	164,145

G. Impairment analysis of financial assets

a. The Bank has recognized accumulated impairment loss for available-for-sale financial assets in the amount of $140,985 and $163,785 as of 31 December 2015 and 31 December 2014, 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 $1,416,689 and $1,358,935 as of 31 December 2015 and 31 December 2014, respectively, due to credit deterioration of securitization products and financial debentures.

The Bank has recognized accumulated impairment loss for investment in debt securities with no active market in the amount of $95,586 as of 31 December 2015 and 31 December 2014, due to the default on the convertible bonds.

c. The Bank's impairment assessment of discounts and loans and receivables, please refer to Note 6.(5) and Note 6.(6).

d. Foreclosed properties management policy

The carrying amount of foreclosed properties in CUBC Bank were $59,519 and $57,092 as of 31 December 2015 and 31 December 2014.

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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(8) Liquidity risk

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

Liquidity risk 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 Group believes it can generate within that period. As part of our liquidity risk management, the Group focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

A. Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

a. Financial assets were held to manage liquidity risk

The Group 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.

2015.12.31	0-30 days	31-180 days	181 days - 1 year-	Over 1 year	Total
Due to the Central Bank and call loans from banks	$18,302,306	$10,012,450	$10,387,327	$76,893	$38,778,976
Securities sold under agreements to repurchase	37,882,342	5,166,967	-	11,005,959	54,055,268
Payables	10,963,288	8,487,879	111,856	799,521	20,362,544
Deposits and remittances	261,487,276	717,033,377	757,807,236	113,396,994	1,849,724,883
Financial debentures payable	7,779	336,018	37,111	51,900,000	52,280,908
Other capital outflow at maturity	22,467,662	32,764,319	6,434,595	5,732,362	67,398,938

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2014.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	$26,915,849	$15,414,504	$15,573,738	$115,199	$58,019,290
Funds borrowed from Central Bank and other banks	1,586,505	-	-	-	1,586,505
Securities sold under agreements to repurchase	59,719,068	-	-	-	59,719,068
Payables	11,827,816	5,480,307	444,813	582,021	18,334,957
Deposits and remittances	250,795,372	699,520,712	673,027,048	90,309,859	1,713,652,991
Financial debentures payable	22,736	338,653	5,037,213	62,421,857	67,820,459
Other capital outflow at maturity	30,639,975	32,636,025	12,035,871	4,753,158	80,065,029

B. Maturity analysis of derivative financial liabilities

a. Net settled derivative financial instruments

Net settled derivatives engaged by the Bank include:

i. Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
ii. 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:

2015.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	$89,376	$112,235	$1,436,061	$4,267,106	$5,904,778
- Interest rate derivative instruments	12,016	51,356	156,012	26,549,494	26,768,878
Total	$101,392	$163,591	$1,592,073	$30,816,600	$32,673,656

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2014.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	$(2,201)	$(19,657)	$(178,144)	$(1,702,407)	$(1,902,409)
- Interest rate derivative instruments	9,118	39,821	16,939	9,337,121	9,402,999
Total	$6,917	$20,164	$(161,205)	$7,634,714	$7,500,590

b. Maturity analysis of gross settled derivative financial instruments

Gross settled derivatives engaged by the Bank include:

i. Foreign exchange derivative instruments: currency futures and swaps;
ii. Interest rate derivative instruments: cross currency swaps;
iii. 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. The disclosed amounts are based on contract cash flows and part of the disclosed are not in conformity with related items on consolidated balance sheet. Maturity analysis of gross settled derivative financial liabilities was as follows:

2015.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	$(5,831,519)	$(7,551,584)	$(2,169,857)	$(461,724)	$(16,014,684)
-Cash inflow	59,346	52,955	134,790	45,820	292,911
- Interest rate derivative instruments					
-Cash outflow	(309,781)	(579,714)	(572,038)	(2,254,893)	(3,716,426)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(6,141,300)	(8,131,298)	(2,741,895)	(2,716,617)	(19,731,110)
Cash inflow subtotal	59,346	52,955	134,790	45,820	292,911
Net cash flow	$(6,081,954)	$(8,078,343)	$(2,607,105)	$(2,670,797)	$(19,438,199)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2014.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	$(1,996,256)	$(2,904,077)	$(1,044,124)	$1,024,086	$(4,920,371)
-Cash inflow	316,962	734,255	637,003	35,858	1,724,078
- Interest rate derivative instruments					
-Cash outflow	(219,291)	(50,824)	(262,573)	(703,326)	(1,236,014)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,215,547)	(2,954,901)	(1,306,697)	320,760	(6,156,385)
Cash inflow subtotal	316,962	734,255	637,003	35,858	1,724,078
Net cash flow	$(1,898,585)	$(2,220,646)	$(669,694)	$356,618	$(4,432,307)

C. 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.

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:

2015.12.31	Not later than 1 year	1~5 year	Later than 5 year	Total
Irrevocable commitments	$201,118,028	$237,814,681	$260,311,446	$699,244,155
Financial guarantee contracts	12,520,417	2,209,659	20,028	14,750,104
Leasing commitments				
Non-cancellable operating lease payments	851,937	1,439,316	90,579	2,381,832
Total	$214,490,382	$241,463,656	$260,422,053	$716,376,091

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2014.12.31	Not later than 1 year	1~5 year	Later than 5 year	Total
Irrevocable commitments	$170,162,476	$204,439,128	$256,313,843	$630,915,447
Financial guarantee contracts	14,895,131	2,099,987	14,472	17,009,590
Leasing commitments				
Non-cancellable operating lease payments	935,953	1,592,742	84,939	2,613,634
Total	$185,993,560	$208,131,857	$256,413,254	$650,538,671

(9) Capital management

A. Overview

a. The capital management objectives of the Group are as follows:

i. The eligible capital of the Group 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.

ii. To ensure the Group possesses sufficient capital to assume various risk, the Group assesses required capital for the portfolios and characteristics of risk and execute risk management through capital allocation to realize optimization of resources.

B. Capital management procedures

a. The Group follows 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 Group maintains the BIS (Bank for International Settlement) capital adequacy ratio at 8%, the minimum standard set by the competent authority. To implement capital management, the Group considers not only the business development but also the revised regulation from the competent authority, significant fund operations and capital increase plans to evaluate the capital adequacy ratio. To enhance internal monitor efficiency, the Bank established an early-warning mechanism to reduce the impact of significant events, 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 Group. The regulatory capital is divided into net Tier 1 Capital and net Tier 2 Capital listed as follows:

   i. 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 intangible 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.

   ii. 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 follows:

   i. 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.

   ii. 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.

   iii. 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.).

   iv. 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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. 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 31 December 2015 and 2014, the ratio of the Group eligible capital to its consolidated risk-weighted assets were 16.29% and 16.18%, respectively.

(10) Unconsolidated structured entities

A. The Group does not provide financial support or other support to the unconsolidated structured entities. The Croup's maximum exposure to loss from its interests in these structured entities is limited to the carrying amount of assets the Group recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

Types of structured entity	Nature and purpose	Interests owned
Securitization vehicle	Investment in asset-backed securities to receive returns	Investment in securitization vehicles issued by the entity

B. As of 31 December 2015, the carrying amount of assets recognized by Group relating to its interests in unconsolidated structured entities is disclosed as follows:

	Asset Securitization commodity
Available-for-sale financial assets	$1,208,713
Held-to-maturity financial assets	15,165,099
Investments in debt securities with no active market	12,307,158
Total	$28,680,970

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(11) The assets and liabilities managed under the Bank's trust in accordance with the Trust Enterprise Act

A. 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

Trust Assets			Trust Liabilities		
	2015.12.31	2014.12.31		2015.12.31	2014.12.31
Bank deposits	$11,803,915	$12,542,436	Custody securities payable	$130,787,164	$120,996,144
Bonds	104,343,787	125,712,267	Other liabilities	56	56
Common stock	31,117,556	1,576,137	Trust capital	373,060,985	365,430,973
Mutual funds	190,429,221	191,225,477	Accumulated Losses		
Insurance product	2,674,675	2,497,781	Earnings distribution	195,879	(597,095)
Real estate			Net income	135,863	144,966
Land	31,973,674	31,073,489	Retained Losses	(711,346)	(259,217)
Buildings, net	51,482	51,108	Net assets		
Construction in progress	287,127	40,988		-	-
Custody securities	130,787,164	120,996,144	Capital account	-	-
			Distributable revenue		
Total	$503,468,601	$485,715,827	Total	$503,468,601	$485,715,827

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Income Statement Based on Trust

Items	2015	2014
Trust revenue		
Interest income	$53,646	$52,961
Rental income	384	336
Cash dividend income	94,269	67,128
Investment income-bonds	-	558
Investment income-stock	7,624	5,131
Investment income-funds	40,844	36,064
Investment income-beneficiary securities	-	9,863
Subtotal	196,767	172,041
Trust expense		
Management fee	13,208	10,458
Supervisor fee	883	943
Taxes	4,272	4,284
Service fee	1,666	2,153
Investment loss-stock	823	281
Investment loss-funds	38,723	8,603
Others	1,329	353
Subtotal	60,904	27,075
Income equalization	135,863	144,966
Net income before tax	-	-
Net income	$135,863	$144,966

Details of Trust Properties

Items	2015.12.31	2014.12.31
Bank deposits	$11,803,915	$12,542,436
Bonds	104,343,787	125,712,267
Common stock	31,117,556	1,576,137
Mutual fund	190,429,221	191,225,477
Insurance product	2,674,675	2,497,781
Real estate		
Land	31,973,674	31,073,489
Buildings, net	51,482	51,108
Construction in progress	287,127	40,988
Custody securities	130,787,164	120,996,144
Total	$503,468,601	$485,715,827

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. The Bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of 31 December 2015 and 2014 are as follows:

Items	2015.12.31	2014.12.31
Special trust of money that invest in foreign securities	$252,993,672	$270,425,243
Special trust money that invest in domestic securities	40,897,780	45,789,541
Trust of money-custody securities	130,787,164	120,996,144
Trust of real estate	33,787,425	33,541,481
Trust of real estate price	3,922,183	4,612,823
Trust of insurance claims	183,248	151,525
Personal and corporate trust	37,275,500	6,628,455
Trust of business employee's savings	2,278,814	2,408,231
Trust of securities	1,342,815	1,162,384
Total	$503,468,601	$485,715,827

(12) 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.

(13) The significant portfolio of foreign currency financial assets and liabilities are as follows:

	2015.12.31		
	Foreign Currency	Exchange Rate	NTD
Financial Assets Monetary Items			
USD	$6,500,354	33.0660	$214,940,705
HKD	3,844,025	4.2664	16,400,148
CNY	12,328,592	5.0316	62,032,544
Financial liabilities Monetary Items			
USD	8,839,718	33.0660	292,294,115
CNY	8,673,506	5.0316	43,641,613
AUD	816,372	24.1597	19,723,303

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2014.12.31		
	Foreign Currency	Exchange Rate	NTD
Financial Assets Monetary Items			
USD	$7,443,273	31.7180	$236,085,733
HKD	2,573,017	4.0898	10,523,125
CNY	29,529,470	5.1035	150,703,650
Financial liabilities Monetary Items			
USD	7,937,171	31.7180	251,751,190
CNY	8,836,116	5.1035	45,095,118
AUD	568,529	25.9628	14,760,605

As the Group has a large variety of foreign currencies, it is not possible to disclose foreign currency exchange gain or loss based on each foreign currency's exposure to major impact. The foreign currency exchange gains for the years ended 31 December 2015 and 2014 were $844,789 and $1,105,540, respectively.

(14) In order to facilitate comparative analysis, a number of items under the consolidated financial statement of the previous years would have to be appropriately reclassified.

13. Segment information

For management purposes, the Group is organized into business units based on products and services and have four reportable segments as follows:

(1) Corporate banking segment - syndication loans, large-sized loans, group loans and general loans, etc.

(2) Retail banking segment - deposits and consumer loans, foreign exchange services, endorsement guarantees business, note discounting, disbursements and receipts, safe deposit boxes, credit card-related products, and trust business, etc.

(3) Offshore banking segment - international banking department, offshore banking unit, overseas branches and representative office, etc.

(4) Other segments - these parts contain the Bank's assets, liabilities, revenues and expenses that cannot be attributed to or allocated reasonably to certain operating segments.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessments. Segment performance is evaluated based on operating profit or loss. Segments' accounting policies are the same as Note 4 mentioned above.

(1) Segment information

2015	Corporate Banking Segment	Retail Banking Segment	Offshore Banking Segment	Other Segment	Consolidated
Net interest income (from external customer)	$5,764,031	$6,808,169	$7,467,652	$6,688,716	$26,728,568
Inter-segment revenues	$(3,521,317)	$10,063,266	$(133,532)	$(6,408,417)	$-
Segment net income	$2,626,826	$13,393,609	$5,374,282	$(115,236)	$21,279,481
Income tax expense					(2,512,583)
Net income after income taxes					$18,766,898

2014	Corporate Banking Segment	Retail Banking Segment	Offshore Banking Segment	Other Segment	Consolidated
Net interest income (from external customer)	$6,281,022	$5,877,100	$8,710,744	$4,910,254	$25,779,120
Inter-segment revenues	$(4,360,033)	$10,815,629	$(1,628,276)	$(4,827,320)	$-
Segment net income	$1,273,405	$12,014,371	$6,957,950	$453,870	$20,699,596
Income tax expense					(2,885,102)
Net income after income taxes					$17,814,494

(2) Geographical information

Revenue from external customers：

	For the years ended 31 December	
	2015	2014
Taiwan	$19,260,916	$17,068,376
Other countries	7,467,652	8,710,744
Total	$26,728,568	$25,779,120

The revenue information above is based on the location of the customer.

Note:

A. No revenue from transactions with a single external customer amounted to 10% or more of the Group total revenue during the years ended 31 December 2015 and 2014.

B. Operating segments' profit are measured at pre-tax income basis, the income taxes are not allocated to reporting segments for the purpose of making decisions about resource allocation and performance assessment.

C. The Group provides the average of deposits and loans to assess the performance, the disclosed measure amounts of assets and liabilities are zero.