

# ANNUAL REPORT | 2014



CTBC BANK

**CTBC Bank Co., Ltd.**

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**Spokesman**

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**Acting Spokesman**

Name: Rachael Kao  
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**Stock Transfer Agency**

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**The Notarization CPA of Last Few Years**

Name: Jeff Chen, Charles Chen  
Business Office: KPMG Certified Public Accountants  
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**Credit Rating Institutions**

Taiwan Ratings Corp.  
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Taipei City 110, Taiwan (R.O.C.)  
Tel: +886-2-8722-5800  
Website: <http://www.taiwanratings.com.tw>

**Standard & Poor's Ratings Services**

Address: Unit 1, 69F., International Commerce Centre,  
1 Austin Road West, Kowloon, Hong Kong  
Tel: +852-2533-3500  
Website: <http://www.standardandpoors.com>

**Fitch Australia Pty Ltd, Taiwan Branch**

Address: Suite 1306, 13F., No. 205, Tun Hwa N. Rd.,  
Taipei City 105, Taiwan (R.O.C.)  
Tel: +886-2-8175-7600  
Website: <http://fitchratings.com.tw/zh/>

**Moody's Investors Service Hong Kong Limited**

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Admiralty, Hong Kong  
Tel: +852-3758-1300  
Website: <http://www.moody.com>

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## I. Letter to Shareholders

Dear Shareholders,

In 2014, CTBC Bank Co., Ltd. (hereinafter CTBC Bank) continued to deliver excellent performance in a wide range of our operations. We were ranked by international professional agencies as Best Bank in Taiwan in *Asiamoney* and *The Asset* magazines. In the area of corporate banking, CTBC Bank was recognized by *Global Finance* and *Asiamoney* as the Best Foreign Exchange Bank in Taiwan, while *Global Finance*, *The Asset*, *The Asian Banker*, *The Corporate Treasurer*, and *Global Trade Review* magazines named CTBC Bank Taiwan's Best Trade Finance Bank. CTBC Bank was awarded Best Retail Bank in Taiwan by *The Asian Banker* for the ninth time and was named Taiwan's Best Wealth Management Bank in *Euromoney* for the eleventh time.

In 2014, CTBC Bank enjoyed an industry-leading NT\$87.7 billion in consolidated net revenue, NT\$39.5 billion in consolidated pre-tax income, NT\$34.3 billion in consolidated after-tax income, and 22.97% consolidated pre-tax ROE. Compared to 2013, consolidated net revenue grew 44%, consolidated pre-tax income rose 111%, and the budget achieving rate before taxes was 82%. If the effect of one-off items, such as implementing the legal requirement to raise the loan loss allowance and delaying the sale of the CTBC building are excluded, the budget achieving rate before taxes reaches 108%.

Last year marked another year of innovation at CTBC Bank, which received approval by the relevant authorities to launch a variety of new products. CTBC Bank is Taiwan's first bank to offer ATM overseas remittances in foreign currencies through our U Remit service that provides Indonesians and Filipinos working in Taiwan a simple, fast, and safe way to remit money home from any ATM in 7-ELEVEN. The first bank to provide online payment services, CTBC Bank will continue this leadership role as we launch pockii, third-party payment platform allowing small merchants or individual sellers a more varied range of secure and convenient payment services. We received authorization to proceed with a trial of our Mobile Point of Sale (mPOS) service, which pioneers the use of a Bluetooth-enabled credit card reader to provide consumers with on-the-spot credit card service and launches an entirely new mobile payment market. CTBC Bank is also the first financial organization authorized to issue Dual Currency Credit Cards (in NTD and USD, JPY, or EUR) that provide our card holders the choice of paying for the purchase directly from their foreign currency account or in NTD at the current exchange rate to meet needs of clients when overseas. In order to respond to the rapid development of digital payments, we have launched QR Code Mobile Phone remittances and we were the first in Taiwan to provide payment notification services through social media software, giving consumers a safer, more convenient remittance experience.



To take advantage of international financial cooperation opportunities, in 2014 CTBC Bank set up the Cross-border Financial Business division responsible for coordination and integration of cross-border financial operations and maintaining our relationships with local Japanese banks. Responsibilities include signing memorandums of understanding (MOU) with Japanese banks, assisting local bank customers with financial advising needs, and utilizing local bank platform resources to develop new business with the active cooperation of our institutional banking group.

In the area of risk management, CTBC Bank continued to strictly adhere to its principle of controlling asset quality and BIS ratio. In 2014, the bank enjoyed excellent asset quality with a consolidated NPL ratio and loan loss coverage ratio of 0.96% and 154% respectively. The consolidated BIS ratio stood at 13.46%, highlighting the bank's capital strength. Although some credit rating agencies issued CTBC Bank a negative outlook due to the impact of acquiring Tokyo Star Bank on capital strength, our overall ratings still led the industry.

### Most Recent Credit Ratings

| Type of Rating | Rating Agency     | Credit Rating |            | Outlook  | Other                                    | Effective Date |
|----------------|-------------------|---------------|------------|----------|------------------------------------------|----------------|
|                |                   | Long-term     | Short-term |          |                                          |                |
| Global         | Moody's           | A2            | Prime-1    | Negative | -                                        | 2014.6.18      |
|                | Standard & Poor's | A-            | A-2        | Stable   | -                                        | 2014.7.22      |
|                | Fitch             | A             | F1         | Negative | Viability rating: a<br>Support rating: 3 | 2014.10.6      |
| National       | Taiwan Ratings    | twAA+         | twA-1+     | Stable   | -                                        | 2014.7.22      |
|                | Fitch             | AA+(tw)       | F1+(tw)    | Negative | Viability rating: a<br>Support rating: 3 | 2014.10.6      |

Looking back at the global economic climate in 2014, the US economy enjoyed steady expansion from an improving job market and growth in private consumption. As expected, the Federal Reserve ended quantitative easing (QE) and moved slowly towards normalizing monetary policy. On the other hand, with the crisis in Ukraine and the global drop in oil prices, the Eurozone faced the specter of deflation and the European Central Bank (ECB) repeatedly implemented expansionary measures. The impact of Japan's consumption tax hike in early April 2014 was more severe than official estimates and China's push for financial reforms further decelerated economic growth, so while the global economy continued to recover in 2014, the speed was exceedingly slow and uneven. Benefitting from US economic expansion, along with a spate of new products launched by international electronics giants, Taiwan's exports and domestic demand both rose. According to Taiwan's Directorate-General of Budget, Accounting and Statistics, the 2014 economic growth rate rose to 3.74%, while the private consumption growth rate was 2.96%. As the local economy

improves and financial regulations are gradually and judiciously loosened, competition within the industry will intensify, but these are still positive developments that promise to increase the overall business and profitability within the banking sector. CTBC Bank will take advantage of the opportunities created to develop new growth momentum and maintain stable profits to create the most value for our shareholders.

## **Outlook for 2015**

Building on the firm foundation laid in 2014, in 2015 CTBC Bank will continue to stand by our brand spirit "We are family", mission "Protect and Build", and our brand values, "Caring, Professional, Trustworthy" as we take the initiative to provide customers a variety of excellent products and services. On a foundation of robust risk management, CTBC Bank will optimize our internal resource allocation and maximize business performance. CTBC Bank's two main operational objectives in 2015 are to continue growing profits in the Taiwan market and expand our overseas business scale and develop cross-border synergies:

### **1. Continue to grow profits in the Taiwan market**


In the area of corporate banking, we will maintain our leading position in niche products and consolidate CTBC Bank's brand image for innovation and leadership. CTBC Bank will target specific industries and client bases to further expand our foundation, increase lending momentum, and utilize our cross-selling capability to meet clients' cross-border needs. As for retail banking, CTBC Bank provides consolidated financial planning services for our family wealth management clients and offers differentiated options tailored to the needs of each generation within the family. We will strengthen portfolio management for our wealth management customers and present asset allocation recommendations that take into account both risk and returns, all while providing enhanced after-sales services. In our payments business, we will develop new products and services to meet the needs of our various customer segments, enhance the efficiency of credit card points, and optimize the deployment of marketing resources. CTBC Bank will deepen relationships with co-branded credit card partners and provide our merchants with an integrated cash flow and marketing platform that combines mobile apps, digital wallets, and bill payment platform to provide comprehensive user experience for their digital life.

### **2. Expand overseas business scale and develop cross-border synergies**

In the Greater China market, building upon our strong foundation with overseas Taiwanese businesses, CTBC Bank will utilize our cross-border capability strengths to further expand within niche customer bases. We actively develop non-Taiwanese businesses and take advantage of opportunities to work with Chinese businesses within the greater China region. The bank will continue to expand our products and service platform to meet their cross-border needs, thereby attracting deposits and creating the groundwork to increase our profits. In accordance with the policy of China government to support regional growth, we will accelerate the opening of new branches and set up overseas subsidiaries. In Southeast Asia, we focus on selected target

industries within each country to expand our foothold with middle-sized clients. Our Singapore branch serves as a regional financial hub, linking up cross-border financial needs and services between countries in Southeast Asia. As for Japan, service to local customers is primarily provided through our subsidiary. By combining the resources of the parent bank and our subsidiary, CTBC Bank can serve the local wealth management market and meet the domestic and overseas financial needs of Japanese SMEs. The needs of Taiwanese businesses in Japan are met through our local branch, which assists them with expansion of their enterprises within Japan. In North America, we will focus on stable management to increase operational efficiency and grow our deposit base.

CTBC Bank will continue to stand by its principle of sound management as it builds a rock-solid foundation of diverse profit sources and asset quality management to achieve sustained success.

Chairman: 

## II. Company Profile

### A. Company Overview

1. Date of Establishment: March 14, 1966

2. History of the Bank

Formerly known as China Securities Investment Corp., CTBC Bank was established in 1966 and has been affiliated with CTBC Financial Holding Co., Ltd. since May 17, 2002.

Operations include deposits, loans, guarantees, foreign exchange, offshore banking units (OBU), trusts, credit cards, cash cards, securities, bonds, proprietary futures, derivatives, factoring, safe deposit boxes, electronic banking services, and the national lottery.

To maximize operational scope, CTBC Bank merged with Grand Commercial Bank in December 2003, acquired the Fengshan Credit Cooperative in July 2004 and successfully bid to purchase Enterprise Bank of Hualien in May 2007. To make the group more effective, CTBC Bank formally merged with the Chinatrust Bills Finance Corporation on April 26, 2008. The acquisition of The Tokyo Star Bank Ltd. was approved on December 20, 2013 at CTBC Holding's extraordinary shareholder meeting. The transfer of 100% of shares was completed on June 5, 2014 and CTBC Bank officially became the sole shareholder of The Tokyo Star Bank. Through the end of 2014, CTBC Bank had a total of 147 branches and 5,403 ATMs in Taiwan and 100 overseas outlets. CTBC Bank boasts NT\$2.42 trillion in deposits and NT\$3.24 trillion in total assets — the most of any privately-operated bank in Taiwan.

3. Awards

#### Domestic Awards

| Award                                                                                                                                                                                                                                                   | Agency                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| 2014 Banking Industry Survey:<br>First place in Customer Service, Product Performance, and Customer Events<br><br>2014 Wealth Management Survey:<br>Best Wealth Management Image<br><br>Distinguished Service Award and 50 Gold Medal Winning Employees | <i>Global Views Magazine</i>              |
| Trusted Brand Awards:<br>Gold awards for Banking and Credit Card Issuing Bank                                                                                                                                                                           | <i>Reader's Digest</i>                    |
| 2014 Young Generation Brand Survey:<br>First place for most often used credit card brand                                                                                                                                                                | <i>30 Magazine</i>                        |
| 2014 Most Influential Brands: First place in the Banking Category                                                                                                                                                                                       | <i>Manager Today Magazine</i>             |
| 2014 Top 10 Service Companies for Technological Innovation                                                                                                                                                                                              | <i>Institute for Information Industry</i> |



|                                                                                                                                                                                         |                                                                             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| 1st Work-Life Balance Awards: Happy Healthy Enterprise Award                                                                                                                            | <i>Ministry of Labor</i>                                                    |
| 2014 Service Industry Survey:<br>Domestic Bank Gold Award                                                                                                                               | <i>Commercial Times</i>                                                     |
| Wealth Management Banking Survey:<br>Best Wealth Management Bank<br>Best Family Wealth Management<br><br>7th Business Professional Brand Survey:<br>First place in the Banking Category | <i>Business Today</i>                                                       |
| Top Digital Service Benchmark Enterprise in the Banking Category                                                                                                                        | <i>Business Next Magazine</i>                                               |
| Gold Medal for 2014 Sports Activists Award-Sponsor Category                                                                                                                             | <i>SportsAdministration,<br/>Ministry of Education</i>                      |
| 7th Taiwan Banking and Finance Best Practice Awards:<br>Best Trust Finance<br>Best Risk Management                                                                                      | <i>Taiwan Academy of<br/>Banking and Finance</i>                            |
| 2014 Top Five Representative M&A Award<br>2014 Most Creative M&A Award                                                                                                                  | <i>Taiwan Mergers &amp;<br/>Acquisitions and Private<br/>Equity Council</i> |
| Favorite Brands of the Elite Survey:<br>Best Domestic Bank<br>Best Bank Image<br>Best Banking Service                                                                                   | <i>Wealth Magazine</i>                                                      |

### **International Awards**

| <b>Award</b>                                                                                                                                                                                                                                                                             | <b>Agency</b>                                                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| Best Private Bank in Taiwan                                                                                                                                                                                                                                                              | <i>Euromoney</i>                                               |
| Best Retail Bank in Taiwan<br>Best Trade Finance Bank in Taiwan<br>Best Internet Banking Initiative in Taiwan<br>Best Wealth Management Business in Taiwan                                                                                                                               | <i>The Asian Banker</i>                                        |
| Best Trade Finance Bank in Taiwan<br>Best Cash Management Bank in Taiwan<br>Best Risk Management Bank in Taiwan<br>Best Domestic Custodian Bank in Taiwan<br>Best Wealth Manager, Taiwan<br>Best FX Derivatives House, Taiwan<br>Best Domestic Bank in Taiwan<br>Best Debt House, Taiwan | <i>The Asset</i>                                               |
| #205 of the Top 1000 World Banks 2014                                                                                                                                                                                                                                                    | <i>The Banker</i>                                              |
| Best Private Bank in Taiwan                                                                                                                                                                                                                                                              | <i>The Banker &amp;<br/>Professional Wealth<br/>Management</i> |
| Best Foreign Exchange Bank in Taiwan<br>Best Trade Finance Bank in Taiwan<br>Best Emerging Market Bank in Taiwan                                                                                                                                                                         | <i>Global Finance</i>                                          |

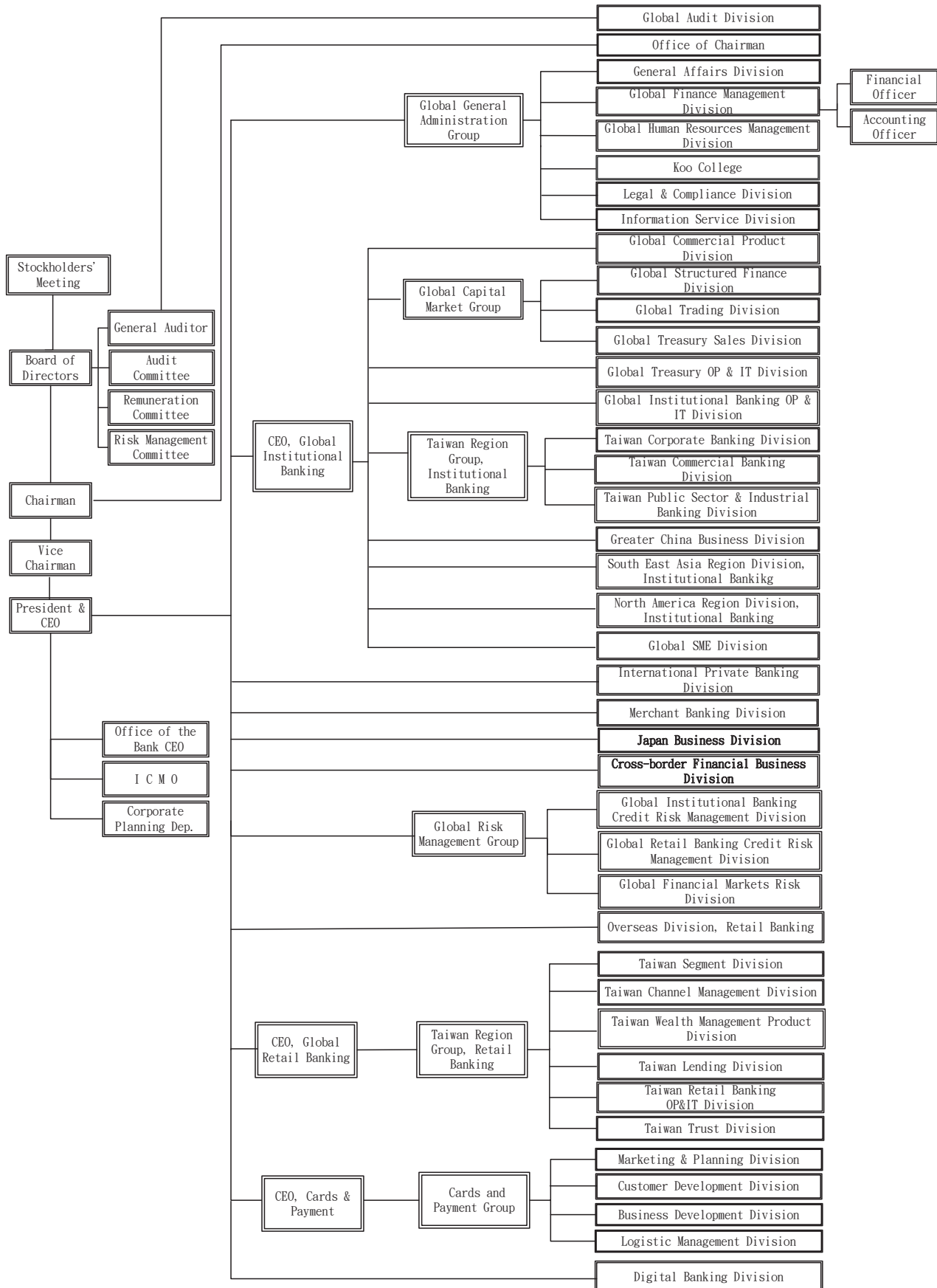
|                                                                                                                                                                                                                                                      |                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| Best Local Currency Cash Management Services voted by financial institutions<br>Best Domestic Bank in Taiwan<br>Best Local/Domestic FX Bank in Taiwan as voted by corporations<br>Best Local Cash Management Bank in Taiwan as voted by corporations | <i>Asiamoney</i>                             |
| #3 for Best Managed Company<br>#3 for Best Corporate Governance<br>#3 for Best CSR<br>#3 for Best Investor Relations<br>#3 for Best Committed to a Strong Dividend Policy<br>Best Private Bank in Taiwan                                             | <i>FinanceAsia</i>                           |
| Best Trade Finance Bank in Taiwan                                                                                                                                                                                                                    | <i>Global Trade Review</i>                   |
| Taiwan Loan House                                                                                                                                                                                                                                    | <i>IFR Asia</i>                              |
| Best Trade Finance House in Taiwan                                                                                                                                                                                                                   | <i>The Corporate Treasurer</i>               |
| Innovation or Enhancement in Product or Proposition Design – Investments, Pensions & Protection-SAR/ESO Global Execution Platform Service                                                                                                            | <i>Financial World</i>                       |
| Credit Card Product of the Year, Taiwan                                                                                                                                                                                                              | <i>CEPI</i>                                  |
| The prestigious award from among the top 300 Asian Banks<br>Asia Excellence Brand Award 2014                                                                                                                                                         | <i>YazhouZhoukan</i>                         |
| Best Retail Bank in Taiwan<br>Best Retail Risk Management in Taiwan<br>Best Data Analytics Project in Taiwan                                                                                                                                         | <i>MILSTE</i>                                |
| Taiwan Banking & Securities Awards                                                                                                                                                                                                                   | <i>Institutional Investor (IICChina.com)</i> |

#### 4. Global Operations

Faced with the challenges of financial liberalization and an increasingly globalized marketplace, CTBC Bank took the initiative to increase service locations both in Taiwan and abroad. In 2014, we have a total of 147 branches within Taiwan and 100 outlets (representative offices, branches, and subsidiaries and their branches) overseas. Our many locations in the US, Canada, Japan, India, Indonesia, the Philippines, Thailand, Vietnam, Hong Kong, Singapore, and China make CTBC Bank Taiwan's most international financial institution. Looking ahead, CTBC Bank will continue to stand by its brand spirit "We are family", while we work to protect and build clients' wealth. We will also uphold our brand values of being "Caring, Professional, and Trustworthy" as we provide customers with a complete array of convenient financial services. CTBC Bank will continue to strive to be Taiwan Champion, Asian Leader, and the financial institution most worthy of client trust.

## B. The Organization

### 1. CTBC Chart



## 2. Directors, supervisors, and major managers

### (1) Directors and supervisors

May 1, 2015

| Title                | Name             | Date of Assignment | Office Term | Significant Experience                                                                                                                                                                                                                 | Education                                                                        |
|----------------------|------------------|--------------------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| Chairman             | Chao-Chin Tung   | Jun. 20, 2014      | 3           | Director of CTBC Financial Holding Co., Ltd.<br>Director of CTBC Life Insurance Co., Ltd.<br>Chairman of CTBC Venture Capital Co., Ltd.<br>Chairman of CTBC Asset Management Co., Ltd.<br>Vice Chairman of Showa Denko HD TRACE Corp.  | M.S. in Material Science, University of Rochester, U.S.A.                        |
| Vice Chairman        | Thomas K.S.Chen  |                    |             | Director of CTBC Financial Holding Co., Ltd.<br>Chairman of CTBC Investment Co., Ltd.<br>Chairman of CTBC Bank Corp. (USA)<br>Director of Taipei Financial Center Corporation                                                          | Bachelor of Public Finance, National Chengchi University, Taiwan                 |
| Director             | Wen-Long Yen     |                    |             | Chairman of CTBC Financial Holding Co., Ltd.<br>Chairman of Kainan University<br>Director of United Real Estate Management Co., Ltd.                                                                                                   | Department of Economics, Soochow University, Taiwan                              |
| Director             | H. Steve Hsieh   |                    |             | Vice Chairman of CTBC Financial Holding Co., Ltd.<br>Chairman of Taiwan Lottery Co., Ltd.<br>Independent Director LITE-ON IT Co., Ltd.<br>Secretary General, Executive Yuan                                                            | Ph.D. in Biochemical Nutrition, University of Wisconsin, U.S.A.                  |
| Director             | Paul T. C. Liang |                    |             | Director of CTBC Financial Holding Co., Ltd.<br>CTBC Bank Co., Ltd. (shares), Deputy General Manager<br>President of PT Bank CTBC Indonesia<br>Director of CTBC Life Insurance Co., Ltd.                                               | Department of International Trade, National Chengchi University, Taiwan          |
| Director             | Chun-Te Chiang   |                    |             | Chairman of ISTR Corporation<br>Director of Long Chen Paper Co., Ltd.<br>Independent Director Feng Sheng Technology Co., Ltd.<br>Independent Director Swancor Ind. Co., Ltd.<br>Director Importers and Exporters Association of Taipei | Bachelor of Commerce, University of the Witwatersrand, Johannesburg South Africa |
| Director             | Yenpao Chen      |                    |             | Director of CTBC Financial Holding Co., Ltd.<br>Director of CTBC Securities Co., Ltd<br>Professor Department of Accounting, Soochow University                                                                                         | Ph.D. of Management Finance, University of George Washington, U.S.A.             |
| Independent Director | Chung-Yu Wang    |                    |             | Independent Director of CTBC Financial Holding Co., Ltd.<br>Chairman of Tong Lung Metal Industry Co., Ltd.<br>Chairman of China Steel Co., Ltd.<br>Chairman of Kaohsiung Rapid Transit Corporation                                     | Honorary Ph.D. Chung Yuan Christian University, Taiwan                           |
| Independent Director | Wen-Chih Lee     |                    |             | Independent Director of CTBC Financial Holding Co., Ltd.<br>Professor, National Kaohsiung University of Applied Sciences Department of Wealth and Taxation Management<br>Public service supervisors of I-Shou University               | Ph.D. National Taiwan University Graduate Institute of Commerce, Taiwan          |

| Title                | Name         | Date of Assignment | Office Term | Significant Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Education                                            |
|----------------------|--------------|--------------------|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| Independent Director | Jie-Haun Lee | Jun. 20, 2014      | 3           | Independent Director of CTBC Financial Holding Co., Ltd.<br>Professor, Finance Department, National Chengchi University                                                                                                                                                                                                                                                                                                                                                                                                                                      | Ph.D. in Finance, Louisiana State University, U.S.A. |
| Independent Director | Yin-Lun Wu   |                    |             | Independent Director of CTBC Financial Holding Co., Ltd.<br>Executive Director & Director of Fixed Income and Corporate Sales, Mizuho Securities Asia Limited<br>Executive Director, Director of Construction Solution Service Sales for Financial Institutions,<br>Director of Derivatives in Asia Equity Funds<br>Director of Derivatives in Global Equity Funds in London, Rabobank<br>Director, Barclays Bank<br>Managing Director & Vice President of Debt Capital Market, Bankers Trust New York Corporation<br>Executive Director, Goldman Sachs Bank | MBA, McGill University, Canada                       |

Note: All directors and supervisors are legal representatives of CTBC Financial Holding Co., Ltd. which owns 9,109,277,537 shares of common stocks and 100% of ownership.

### 3. Top 10 shareholders or shareholders owning over 10%

May 1, 2015

| Institutional Shareholder        | Shareholders of Major Institutional Shareholders                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CTBC Financial Holding Co., Ltd. | <ol style="list-style-type: none"> <li>1. Nan Shan Life Insurance Co., Ltd. (4.87%)</li> <li>2. Jeffrey L. S. Koo (3.92%)</li> <li>3. Yi Kao Investment Co., Ltd. (3.14%)</li> <li>4. Mega International Commercial Bank Co., Ltd. Acting as Custodian for the Investment Account of Morgan Stanley Formosa Holdings (Cayman) Limited (2.85%)</li> <li>5. JP Morgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency (2.55%)</li> <li>6. Government of Singapore--GOS-EFMC (2.14%)</li> <li>7. Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds (1.78%)</li> <li>8. Chan Wei Investment Co., Ltd. (1.76%)</li> <li>9. Bank J. Safra Sarasin Ltd--Singapore Branch - For Clients' account (1.71%)</li> <li>10. CTBC Bank Trust Account for CTBC Financial Holding Co., Ltd. Employee Welfare Savings Committee (1.56%)</li> </ol> |



#### 4. Professional qualifications and independence analysis of directors and supervisors

May 1, 2015

| Criteria          | Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience                                                                                                           |                                                                                                                                                                                                                                                 |                                                                                                                                    | Independence Criteria(Note) |   |   |   |   |   |   |   |   |    | Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|---|---|---|---|---|---|---|---|----|-------------------------------------------------------------------------------------------------------------|
|                   | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1                           | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |                                                                                                             |
| Name              |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 |                                                                                                                                    |                             |   |   |   |   |   |   |   |   |    |                                                                                                             |
| Chao-Chin Tung    |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | V                                                                                                                                  |                             | V |   | V |   | V |   | V |   | V  | 0                                                                                                           |
| Thomas K. S. Chen |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | V                                                                                                                                  |                             | V |   | V |   | V |   | V |   | V  | 0                                                                                                           |
| Wen-Long Yen      |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | V                                                                                                                                  |                             | V |   | V |   | V |   | V |   | V  | 0                                                                                                           |
| H. Steve Hsieh    |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | V                                                                                                                                  |                             | V |   | V |   | V |   | V |   | V  | 0                                                                                                           |
| Paul T. C. Liang  |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | V                                                                                                                                  |                             | V |   | V |   | V |   | V |   | V  | 0                                                                                                           |
| Chun-Te Chiang    |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | V                                                                                                                                  |                             | V |   | V |   | V |   | V |   | V  | 1                                                                                                           |
| Yenpao Chen       | V                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                 | V                                                                                                                                  |                             | V |   | V |   | V |   | V |   | V  | 0                                                                                                           |
| Chung-Yu Wang     |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | V                                                                                                                                  |                             | V |   | V |   | V |   | V |   | V  | 1                                                                                                           |
| Wen-Chih Lee      | V                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                 | V                                                                                                                                  |                             | V |   | V |   | V |   | V |   | V  | 0                                                                                                           |
| Jie-Haun Lee      | V                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                 | V                                                                                                                                  |                             | V |   | V |   | V |   | V |   | V  | 0                                                                                                           |
| Yin-Lun Wu        |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | V                                                                                                                                  |                             | V |   | V |   | V |   | V |   | V  | 0                                                                                                           |

Note: Please tick the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.

3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

## 5. Major Managers

May 1, 2015

| Name            | Title                                         | Education                                                                | Significant Experience                                        |
|-----------------|-----------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------|
| James Chen      | President & CEO, Global Institutional Banking | MBA, The City University of New York, USA                                | President, Institutional Banking Group of CTBC Bank Co., Ltd. |
| Jack T.K. Cheng | Senior Executive Vice President               | Bachelor of Business Administration, National Taiwan University          | EVP of CTBC Bank Co., Ltd.                                    |
| Larry Hsu       | Senior Executive Vice President               | Bachelor of Business Administration, National Taiwan University          | EVP of CTBC Bank Co., Ltd.                                    |
| James Y.G. Chen | Senior Executive Vice President               | Master of Political Economy, Nankai University, Nankai University, China | President of Chang Hwa Bank                                   |
| Albert Lee      | Senior Executive Vice President               | Master of Comparative Law, University of Illinois, USA                   | Chairman of Threadneedle Investments Hong Kong                |
| I Cheng Liu     | Senior Executive Vice President               | MBA, University of Pennsylvania, USA                                     | President of Barclays Bank PLC                                |
| Cliff Shen      | Executive Vice President                      | Bachelor of Business Administration, National Cheng Kung University      | SVP of CTBC Bank Co., Ltd.                                    |
| Amy Yang        | Executive Vice President                      | EMBA, National Taiwan University                                         | SVP of CTBC Bank Co., Ltd.                                    |
| Frank Shih      | Executive Vice President                      | MBA, University of Texas at Austin, USA                                  | SVP of CTBC Bank Co., Ltd.                                    |
| Openmind Yeh    | Executive Vice President                      | Bachelor of Economics, Tunghai University                                | SVP of CTBC Bank Co., Ltd.                                    |
| Tony Yang       | Executive Vice President                      | MIBA, United States International University, USA                        | SVP of CTBC Bank Co., Ltd.                                    |
| Aaron King      | Executive Vice President                      | Master of Law, Georgetown University, USA                                | Partner, Lotus International Law Office, Taipei               |
| Mingjohn Lee    | Executive Vice President                      | MBA, New York University, USA                                            | SVP of CTBC Bank Co., Ltd.                                    |
| Eric Hsin       | Executive Vice President                      | Executive MS in Finance, The City University of New York, USA            | SVP of CTBC Bank Co., Ltd.                                    |
| Alex Chen       | Executive Vice President                      | Bachelor of Economics, Chinese Culture University                        | SVP of CTBC Bank Co., Ltd.                                    |
| C.C. Huang      | Executive Vice President                      | MBA, Indiana University at Bloomington, USA                              | EVP of ABN AMRO Bank                                          |
| Matthew Liaw    | Executive Vice President                      | MBA, University of Wisconsin at Madison, USA                             | SVP of CTBC Bank Co., Ltd.                                    |
| Jack CP Wang    | Executive Vice President                      | MBA, The U. of Western Ontario, Canada                                   | Vice President of Citibank                                    |
| Amy HC Lin      | Executive Vice President                      | Bachelor of Banking, National Chengchi University                        | SVP of CTBC Bank Co., Ltd.                                    |
| Noor Menai      | Executive Vice President                      | MBA, University of Rochester, USA                                        | CEO of Charles Schwab Bank                                    |
| CC Hong         | Executive Vice President                      | International Trade, Chihlee College of Business                         | SVP of CTBC Bank Co., Ltd.                                    |
| Jason Chen      | Executive Vice President                      | Bachelor of Business Administration, Feng Chia University                | SVP of CTBC Bank Co., Ltd.                                    |
| Winston Hsia    | Executive Vice President                      | MBA, University of Pennsylvania, USA                                     | President of ViVa TV                                          |

| Name            | Title                    | Education                                                            | Significant Experience                    |
|-----------------|--------------------------|----------------------------------------------------------------------|-------------------------------------------|
| Peter Wei       | Executive Vice President | MBA, National Taiwan University                                      | SVP of CTBC Bank Co., Ltd.                |
| Derek Lo        | Executive Vice President | MBA, Madonna University, USA                                         | SVP of CTBC Bank Co., Ltd.                |
| James Liao      | Executive Vice President | Bachelor of Law, Tunghai University                                  | SVP of CTBC Bank Co., Ltd.                |
| Robert Russell  | Executive Vice President | Bachelor of Economics, York University, Canada                       | Managing Director of Falcon Private Bank  |
| Chung Mao Hsiao | Executive Vice President | Bachelor of Economics, Keio University, Japan                        | SVP of CTBC Bank Co., Ltd.                |
| YongJin Chen    | Executive Vice President | EMBA, National Chengchi University                                   | SVP of CTBC Bank Co., Ltd.                |
| William Chu     | Executive Vice President | Bachelor of Marine Transportation, National Chiao Tung University    | SVP of CTBC Bank Co., Ltd.                |
| Sting Yang      | Senior Vice President    | Bachelor of Accounting, Fu Jen Catholic University                   | VP of CTBC Bank Co., Ltd.                 |
| Christine Ko    | Senior Vice President    | MBA, Ohio State University, USA                                      | Vice President of Standard Chartered Bank |
| Jim Jen         | Senior Vice President    | MBA, Boston University, USA                                          | Vice President of Citibank                |
| Friedman Wang   | Senior Vice President    | MIBA, National Taiwan University                                     | VP of CTBC Bank Co., Ltd.                 |
| Eric Tsai       | Senior Vice President    | EMBA, National Chengchi University                                   | VP of CTBC Bank Co., Ltd.                 |
| Retinna Sung    | Senior Vice President    | Bachelor of Law, National Chung Hsing University                     | VP of CTBC Bank Co., Ltd.                 |
| Anderson Chen   | Senior Vice President    | Bachelor of Business Administration, Soochow University              | VP of CTBC Bank Co., Ltd.                 |
| Yaling Chiu     | Senior Vice President    | MBA, Minnesota-Twin Cities University, USA                           | VP of CTBC Bank Co., Ltd.                 |
| Evan Chang      | Senior Vice President    | Bachelor of Accounting, Tunghai University                           | VP of CTBC Bank Co., Ltd.                 |
| Richie Chen     | Senior Vice President    | Secretarial Science, Tamsui Institute of Business Administration     | VP of CTBC Bank Co., Ltd.                 |
| Vincent Lee     | Senior Vice President    | MIBA, National Taiwan University                                     | VP of CTBC Bank Co., Ltd.                 |
| Li Juan         | Senior Vice President    | MBA, Syracuse University, USA                                        | VP of CTBC Bank Co., Ltd.                 |
| Brian Chou      | Senior Vice President    | Master of Public Affairs Management, National Sun Yat-sen University | VP of CTBC Bank Co., Ltd.                 |
| Frank Hsu       | Senior Vice President    | Master of International Trade, National Chengchi University          | VP of CTBC Bank Co., Ltd.                 |
| Jerry Shaw      | Senior Vice President    | Bachelor of Business Administration, Tamkang University              | VP of CTBC Bank Co., Ltd.                 |
| John Yang       | Senior Vice President    | MAB, University of Texas at Arlington, USA                           | VP of CTBC Bank Co., Ltd.                 |

### III. Business Review

#### A. Business Performance

##### 1. Scope of Business

###### (1) Institutional Banking

###### a. Commercial Banking:

Providing customers with comprehensive, specialized, and cross-border financial services, including loans, trade financing, cash management, corporate trust, proxy services and offshore private banking services such as investment and financial planning.

###### b. Capital Markets:

Providing tailored solutions to meet clients' financial requirements. These services include syndication lending, structured finance, and financial advisory services, etc. Offering wide-ranged foreign exchange and derivative products to fulfill clients' hedging or financing needs, and specializing in structured product design and proprietary trading as well.

###### (2) Retail Banking

###### a. Wealth Management:

Providing target customer groups with financial planning, asset allocation planning and advisory services, as well as acquisition of a variety of financial products.

###### b. Secured Lending:

Providing individuals with a variety of residential mortgage services (including home mortgages, refinancing, installment loans, policy-based loans, and financial planning mortgages) and offering repurchase agreements to targeted corporate customers.

###### (3) Payment Services:

###### a. Credit Cards:

Providing issuing and acquiring services for credit cards, stored value cards, and debit cards.

###### b. Unsecured Lending:

Extending various unsecured personal loans (including unsecured term loans and revolving loans).

#### Revenue Breakdown

Unit: NT\$ million

| Revenue Source          | Amount | %       |
|-------------------------|--------|---------|
| Institutional Banking   | 27,565 | 31.46%  |
| Retail Banking (Note 2) | 32,951 | 37.59%  |
| Japan business          | 9,118  | 10.40%  |
| Other (Note 3)          | 18,016 | 20.55%  |
| Total                   | 87,650 | 100.00% |

Note 1: Bank consolidated basis

Note 2: Including payment services business

Note 3: Including negative goodwill (NTD 14.8 billion) from the acquisition of Tokyo Star Bank



## 2. Business Discussion

### (1) Institutional Banking

CTBC Bank institutional banking business continues to be in the leading position of Taiwan banking industry. Facing the challenges of financial liberalization and an increasingly globalized marketplace, we will broaden our profit sources on Taiwan market by optimizing core business and growing emerging business. Furthermore, we will fully utilize our global networks to accelerate the growth of international business by augmenting business scale of overseas markets and connecting cross-border opportunities to boost synergy.

We keep our thumb on the pulse of the market to lead the finance industry in creative, specialized financial products and have become an indispensable partner to our customers. Each of our main products has been honored with international awards consecutively such as "Best Foreign Exchange Bank in Taiwan", "Best Domestic Custodian Bank in Taiwan", "Best FX Derivatives House, Taiwan", "Best Cash Management Bank in Taiwan", "Best Trade Finance Bank in Taiwan", etc. The management direction and achievements of our primary products are elaborated as below:

#### a. Cash Management

CTBC Bank continues to enlarge deposit base and revenue stream by broadening segment scope, digging out customers' needs, and making continual innovations. Our market share for total deposits shows a significant growth each year, currently exceeding 5.54%. Moreover, focusing on structuring foreign currency related products contributes to the blossom of the foreign currency deposit volume, with growth rate of 20% against 2013 and the market share exceeds 7.87%, ranked among the top 3 positions since Dec. 14.

For the domestic market, with growing numbers of foreign workers and migrants in Taiwan, we launched a pioneering service "U Remit" in 2014, which innovatively provides 24/7 real time outward remittance on widespread CTBC ATMs around Taiwan and facilitates the self-service with user interfaces designed in multiple mother tongues. For the overseas market, we formed a regional network based on a single core system, covering branches, subsidiaries, alliance overlay to continuously be competitive on the cutting edge of cross border cash management.

During the year of 2014, to serve customers in a comprehensive manner, we have successfully rolled out multiple channel suites of e - banking (eTrust), secured fax banking (Codefax) and real time message reporting (MMAS) in Hong Kong, Singapore, Vietnam, the Philippines, India, Indonesia, the US, Taiwan, Japan and China.

b. Trade Finance Business

CTBC Bank achieved a well result in our trade business in 2014, and our growth of revenue is more than 20%.

Further to the service enhanced and product innovation, we did achieve relative high growth in our trade business in terms of average balance and revenue compared with the average performance of Taiwan trade market in previous year. Moreover, CTBC maintains the first place among private banks in respect of volume of LC Issuance and Negotiation in 2014 while CTBC market ranking improves from 8th to 6th among all domestic competitors. To better serve overseas clients, CTBC was devoted into the service to those trading companies, multinational enterprises, and SMEs located in Hong Kong. With Back-to-Back program implementation and sustainable sales support, revenue from HK SME sector had grown 55% in 2014.

Regarding receivable financing, CTBC's strategy is to enhance our operation effectiveness and better risk management rather than price competition in local market. Moreover, a wider range of buyer risk coverage is introduced by allying with more credit insurance companies such as Taiwan EXIM bank, Sinosure of China and Coface. All the product enhancements lead CTBC to maintain top 3 players in Taiwan market. We also began factoring business in Hong Kong, Japan, New York, and Shanghai branch as our growth engine with strong product and operation support from head office.

c. Custody / Corporate Trust Business

Corporate trust business continued to grow in 2014, CTBC Bank asset under custody (AUC) from all segments achieved NT\$1.88 trillion (US\$61 billion) in the end of 2014 with 46% growth rate over 2013. The revenue of Corporate Trust business in 2014 also hit the record high of NT1.0 billion (US\$32.3 million). In terms of asset scale, CTBC Bank is still ranked top one in securities custodian and employee benefits trust custodian.

d. Syndicated Loans

CTBC Bank continues to maintain its leading position as the loan syndication power house in Taiwan market via a thorough coverage in depth and width of client base, investor penetration, structuring capability and geographical/sector diversification. CTBC Bank applies its expertise to all types of financing activities. Our structured financing includes LBO/acquisition financing, asset-based financing (AR, aviation, shipping, construction, etc.), securitization and project finance. CTBC Bank leads among Taiwan banks in LBO/acquisition financing, aviation, shipping financing and securitization. Besides, CTBC Bank has long expanded syndicated loan business outside home market and has become a significant regional player for many years ahead of our domestic competitors. In 2014, CTBC Bank successfully closed a total of

54 cross-border deals with MLA titles, across Northeast Asia, Southeast Asia and India. We're also the first Taiwanese bank acting as facility agent for Chinese borrowers in China's onshore market. The strong presence across Asian region has demonstrated CTBC Bank's long term commitment to supporting our clients to grow and made us awarded the Taiwan Loan House of the Year by IFR Asia in 2014.

e. Fixed Income Underwriting

CTBC Bank has strategized itself to be the market leader in both issuing the first CNY-denominated bond or Formosa bond in Taiwan and self-lead manage for bond issuance in Taiwan bond market; brought innovative and significant products into Taiwan's bond market. CTBC Bank plays an important role in the development of Taiwan local bond market, not only offering comprehensive bond service to clients but also enthusiastically introducing new products into the market. We pioneer the market by launching the first CNY denominated bond in Taiwan and setting the benchmark in the market. CTBC Bank is well recognized in Taiwan Capital Market in terms of innovative deal structure and market leadership. In 2014, we have completed several particular Formosa Bond issuances such as Uni-President China Holding, Agriculture Bank of China, Morgan Stanley and Raiffeisen Bank International AG.

The movement not only set another milestone for Taiwan's bond market, but also added variety to the investment products for institutional investors. Going forward, CTBC Bank will continue to cultivate in Taiwan's bond market to bring in more quality overseas institution issuers to Taiwan's capital market.

f. Treasury & Derivatives

CTBC Bank continues to demonstrate outstanding performance in its capital markets business. In 2014, we ranked first in the derivatives market share in terms of trading volume among Taiwanese banks, according to Central Bank statistics. Our business achievements are continuously recognized by renowned institutions, such as "Best FX Bank", "Best Derivatives House", etc.

Maintaining our pioneering role in the financial industry, CTBC Bank was the first bank permitted by Taiwanese regulators to engage in the TWD NDF business via overseas branches in 2014. This differentiates us from other local competitors and equips us to compete with international banks. We believe that it proves our capability to provide a diverse range of products and geographies, especially as broader economic activity rebounds and the trading environment improves.

In debt issuance, we had our best year ever. CTBC Bank successfully issued a series of callable bonds and performed risk warehousing on its own, being the only Taiwanese bank capable of doing so. Providing liquidity requires taking risk, thus managing risk-adjusted returns of this business by meaningfully reducing risk-weighted assets and optimizing capital utilization has been our main goal. Focusing on the right

balance between risk and returns is important to building a leading product innovation platform and consistently delivering strong returns for our shareholders.

CTBC Bank holds a leading position in risk management of exotic derivatives, while enhancing the ability to offer unique solutions across different asset classes to our clients. Our capital markets business franchise is built on the premise of providing a broad range of services to our clients and securing customer protection. This means strengthening our product innovation platform to meet customer demand as well as completed information and risk disclosure. Our expertise in structuring exotic products and offering risk management solutions for clients in response to changing market conditions and regulatory environment sets up apart from local competitors, and this ability to adjust has been critical to maintaining our top rank in the derivatives market.

## (2) Retail Banking

CTBC Bank remains the pioneer in retail banking product innovation, including wealth management and mortgage services. In addition to enjoying a huge market share, CTBC Bank was awarded by international professional agencies as Best Bank in Taiwan in *Asiamoney* and *The Asset* magazines. In the area of corporate banking, CTBC Bank was recognized by *Global Finance* and *Asiamoney* as the Best Foreign Exchange Bank in Taiwan, while *Global Finance*, *The Asset*, *The Asian Banker*, *The Corporate Treasurer*, and *Global Trade Review* magazines named CTBC Bank Taiwan's Best Trade Finance Bank. CTBC Bank was awarded Best Retail Bank in Taiwan by *The Asian Banker* for the ninth time and was named Taiwan's Best Wealth Management Bank in *Euromoney* for the eleventh time.

### a. Wealth Management

In 2014, CTBC Bank continued to improve product and services to meet customer needs through numerous customer insight surveys, focus group discussions, and pilot tests. Both number of WM customers and AUM has demonstrated strong development over the past few years, with 8% and 12% growth respectively from 2013.

With the bank's open platform strategy, CTBC is able to provide comprehensive and innovative WM products to customers to meet diversified customer needs. The two major WM product lines – mutual funds and bancassurance have also shown robust growth, placing CTBC Bank top of the market share with quite a noticeable gap among competitions.

### b. Internet Banking

CTBC Bank provides a wide range of interactive banking services on the internet. In 2014, the number of CTBC internet banking users exceeded 2.5 million; and with continuously improved and award-winning service platform, CTBC internet banking (with 3.7 million visits per month) continued to be the most popular on the market.

c. ATM Services

CTBC Bank has the highest number of ATMs with 5,403. The bank has created the highest volume in interbank withdrawal transactions, making up for about 32% of the market. In addition to the unconventional services CTBC ATMs can provide, such as internet banking application, CTBC has also continued to substitute traditional ATMs with multi-functional Recycle ATMs, which provide even wider range of services to customers, including cash deposits.

d. Mobile Banking

CTBC Bank enjoys the highest market share in mobile banking. CTBC has 0.6 million mobile banking users, with more than 1 million APP downloads, the highest in the financial category on Taiwan's APP Store. CTBC Bank was the first to launch QR code mobile-payment smartphone application which allows customers to make credit card payment via smartphones QR code APP. This has made virtual payments possible in-store.

e. Mortgages

As the biggest non-government-affiliated mortgage provider, CTBC Bank is also a market leader ranking fifth in mortgage balance market share. In spite of local housing market downtrends, regulatory constraints, and internal compliance, CTBC Bank continues to improve asset quality to increase profitability with customer-oriented lending strategies. These strategies include designing total financing solutions with virtual and efficient customer services.

(3) Cards and Payment Banking

CTBC Cards and payment business maintained the leading position in 2014:

- No.1 in cards in circulation with more than 5.8 million cards (market share of 15.4%)
- No.1 in spending volume with more than NT\$325 billion (market share of 15.7%)
- No.1 in revolving outstanding (including unbilled installment balance) with more than NT\$29.2 billion (market share of 15.1%)
- No.1 in credit card cash advance amounts with more than NT\$7.8 billion (market share of 29.3%)
- No.1 in unsecured lending new booking amount with NT\$43 billion (market share of 12.3%)

a. Credit Cards

In 2014, CTBC Bank celebrates its 40th anniversary of credit card issuing. Not only did CTBC Bank maintain its leading position in the credit card markets, CTBC Bank continues to push the boundaries to bring forth new products & services in 2014.

CTBC Bank has new card products designed specically for either frequent flyers on business to Hong Kong, China and South East Asia countries, for leisure travelers to Japan or for those oversea travelers with foreign currency accounts. Working together with T.S. Dream Mall, CTBC Bank offers unique department store shopping benefits



to the customers in southern Taiwan. CTBC Bank is also among the first to adopt the Over The Air (OTA) technology, which permits direct contactless payment through personal mobile phones.

In addition, CTBC Bank keeps on expanding the scope of existing services as part of the commitments to customers. Collaborating with Ping An Insurance (Group) Company of China, CTBC credit card points can now be used overseas and redeemed for goods and services in more than 500,000 stores in the Wanlitong platform, which is the largest point program in China. For merchants, CTBC Bank was among the first to be granted the license in 2014 to offer the Mobile POS (mPos) acquiring service, a cost effective and highly mobile payment alternative.

With the advancements in the emerging payment, CTBC Bank launched an electronic commerce and payment platform, named “pockii”. Collaborating with MasterPass from MasterCard, pockii can now be used as a payment option in 40,000 online merchants worldwide. Moreover, CTBC Bank has launched mobile apps, allowing fast and easy payments with QR code, generated from personal mobile devices. Working with GOMAJI, the largest group buying e-platform in Taiwan, customers can now pay with QR code in 1,500 restaurants.

b. Unsecured Lending

In 2014, CTBC Bank continues to be the leader in the unsecured lending market, delivering NT\$ 43 billion in new booking amount. By the end of 2014, CTBC Bank holds an ending balance of over NT\$90 billion for the unsecured lending products, posing an annual growth of 7.6%, despite increasing market competitions.

To increase profitability, CTBC Bank continues to implement adjustments on the risk-based customer portfolio mix and to observe customer behaviors for hidden opportunities. Moreover, potential applications are categorized and redirected to the predetermined sales channels for maximum sales efficiency. With the developments of Bank 3.0, CTBC Bank looks forward to better serve the needs of our customers with innovative methods in the near future.

## B. Employees

| YEAR                                 |                           | 2014.12.31     |            | 2013.12.31     |            |
|--------------------------------------|---------------------------|----------------|------------|----------------|------------|
| Number of Employees                  |                           | 10,248         |            | 10,264         |            |
| Average Age (Years Old)              |                           | 37.41          |            | 36.48          |            |
| Average Tenure of Employment (Years) |                           | 8.99           |            | 8.62           |            |
| Education                            |                           | Employee Count | Percentage | Employee Count | Percentage |
|                                      | Graduate School or Higher | 2,149          | 20.97%     | 1,940          | 18.90%     |
|                                      | University and College    | 7,221          | 70.46%     | 7,453          | 72.61%     |
|                                      | Senior High School        | 801            | 7.82%      | 836            | 8.15%      |
|                                      | Below Senior High School  | 77             | 0.75%      | 35             | 0.34%      |

## C. Corporate Social Responsibility and Ethical Conduct

CTBC Bank has been affiliated with CTBC Financial Holding Co., Ltd. since May 17, 2002 and CTBC Holding has evolved to become the leading brand of financial services in Taiwan. Today, CTBC Holding has made corporate social responsibility (CSR) a part of its business strategies and committed significant resources into main areas, namely "corporate governance, customer relations, employee care, environmental protection, and social engagement." It has been preparing CSR reports since 2007 and using it as a means to assess how CTBC Holding and its subsidiaries have fulfilled their social responsibilities.

With a growing range of products and services, CTBC strives to maintain open communication both in the best interest of stakeholders and for the purpose of discovering problems. 10 issues of major concern had been identified in 2014, namely: customers' privacy, operating performance, regulatory compliance, service quality, product risks, shareholders' interests, corporate governance, risk management, information disclosure, and employee welfare. By analyzing internal and external impacts of the above issues, the company was able to respond with proper measures and shoulder more responsibilities and challenges, and thereby contribute to the improvement of the society as a whole.

### 1. Customers privacy

CTBC Bank has been providing employees with intensified training and implementing monitoring systems in order to protect customers' privacy. In addition, the company takes every opportunity to educate customers about security in banking transactions and therefore prevent scams. Meanwhile, an Information Security Committee has been assembled to provide added security to online transactions and prevent leakage of customers' information. A series of information security training was organized for employees in 2014. These online courses and exams had helped raise employees' security awareness and shaped the company's security culture. More than 95% of all employees had completed the training. Meanwhile, the company has been certified by the British Standards Institution (BSI) for BS 10012: 2009 PIMS (personal information management system), which shows that CTBC is consistent with world standards with regards to personal information management.

### 2. Operating performance

The financial market is constantly changing. Although challenges remained aplenty in 2014, the group was able to overcome each challenge with its rich experience and achieve significant success in financial, insurance and investment trust.

In 2014, CTBC Bank enjoyed an industry-leading NT\$87.7 billion in consolidated net revenue, NT\$39.5 billion in consolidated pre-tax income, NT\$34.3 billion in consolidated after-tax income, and 22.97% consolidated pre-tax ROE. Compared to 2013, consolidated net revenue grew 44%, consolidated pre-tax income rose 111%, and the budget achieving rate before taxes was 82%. If the effect of one-off items, such as implementing the legal

requirement to raise the loan loss allowance and delaying the sale of the CTBC building are excluded, the budget achieving rate before taxes reaches 108%.

### 3. Regulatory compliance

For a long period of time, CTBC Bank has paid close attention to trends in domestic and overseas industrial development and changes in financial policies, laws and regulations. We strictly abide by applicable laws and regulations as we actively develop and expand our business.

The company constantly establishes and revises internal policies in line with local and foreign laws. Compliance self-assessments are conducted every six months to ensure that laws have been complied with. The company also organizes compliance training on a regular basis and keeps employees up to date on the latest regulatory amendments.

### 4. Service quality

Financial services have become an important part of people's lives. To assure customers a joyful experience, CTBC Bank is constantly introducing innovative services, thinking from customers' perspective and refining financial services where possible.

### 5. Product risks

As one of the leading financial institutions in Taiwan, CTBC Bank will shoulder responsibility for the products it offers. The company fulfills its product responsibilities by offering sound after-sale services and readying itself with solutions for the various risks.

To ensure that products comply with investors' needs, CTBC Bank has implemented a set of new product development procedures that require employees to conduct in-depth market survey and analysis with regards to the current condition and prospect of the financial market, customers' needs, and the authority's policies before launching any new product. A "Compliance and Risk Management Center" has been established to oversee internal policies related to the issue of financial consumer protection. It protects customers' interests by monitoring customers' response and the bank's risk management practices.

### 6. Shareholders' interests

In addition to maximizing shareholders' values, a company also needs to attend to other shareholders' interests. CTBC Bank has created a proper management system in this respect with clear guidelines and goals to work in the best interests of shareholders.

### 7. Corporate governance

Success is built upon a strong system. CTBC Bank values teamwork as part of its corporate governance; It adopts a robust management system and assigns responsibilities appropriately among employees so that the company may grow continuously and continue to embrace successive challenges.

#### 8. Risk management

CTBC Bank understands the importance of risk management, which is why the company, in addition to complying with the rules of the authority, is committed to revising its business targets, executing board-approved risk strategies, and adopting proper risk management procedures as well as qualitative and quantitative risk assessments. These practices not only protect customers' interests, but also help the company to ensure business sustainability.

#### 9. Information Disclosure

Information transparency presents a major concern to stakeholders, which is why the company has provided a number of open channels through which stakeholders may learn more about the company's operations. Meanwhile, the company also takes this opportunity to review its practices.

#### 10. Employee welfare

As Jeffrey L. S. Koo, founder of CTBC Holding, had said: "Only by maintaining the environment we live in and caring for the people around us, especially employees, are we able to make the society a better place and build a long-lasting business. "In 2014, CTBC Holding spent a total of NT\$620.024 million on employee welfare, which accounted for 0.3% of net revenues and 1.57% of after-tax profit. A total of 19,790 training sessions were conducted for 180,416 employees in 2014, resulting in total spending amounting to NT\$55.61 million.

## IV. Dividend Policy and Earnings Distribution

### A. Dividend Policy and Status of Execution

#### 1. Dividend policy:

As a subsidiary of the CTBC Financial Holding Co., Ltd., the Bank has the obligation to take care of the fund requirements of the parent company. It will also have to set aside an adequate statutory surplus reserve and maintain an equitable policy for distributing cash dividends. Dividends and bonuses for common shares shall in priority be in cash and shall be maintained at a stable level every year.

The above policy, however, is to be observed only in principle. The Bank shall take into consideration of business performance and budgeted capital requirements and make necessary adjustments in actual distribution.

Distribution terms, time, and amount: If there are earnings in the financial statement, the Bank shall first reserve funds for taxes, be adjusted according to the principles of financial accounting, and hold back funds for losses, if any. In addition, it shall assign 30% of the earnings as statutory surplus reserve, distribute or reverse special reserve and finally set aside 0.01% to 0.05% of the distributable earnings to employees as bonuses. The way of distributing the remainder and the beginning retained earnings shall be proposed by the Board of Directors and approved by annual general meetings. Before the statutory surplus reserve reaches the amount of the total capital, the distributed cash dividends shall not exceed 15% of the total capital.

If the bank's statutory surplus reserve has reached the total capital or paragraph 2 of Article 50 of the banking law financial business standards regulated by the authorities and has proposed the statutory surplus reserve according to the company law, it will not be limited by the statutory surplus reserve and the highest cash earning distribution.

The Board of Directors shall decide on the regulations governing the distribution of employee bonus, and the actual distribution ratio within the amount set aside as regulated in the preceding paragraph.

- #### 2. The Board has approved the earnings appropriation proposal for Year 2014. It is proposed that total NT\$ 14,113,004 thousand from retained earnings of Year 2014 will be distributed in stock according to the record shown in the shareholder book on the distribution record date (Record Date). The total common stock dividends are NT\$1.5493 per share in stock. In the event of capital raising or reduction, which affects the number of outstanding shares on Record Date, the Chairman shall be authorized to handle relevant matters.

### B. The Influence of Dividend Allocation This Time to the Operation Performance and

**Earnings Per Share:** There was no announced financial forecast for the bank in Year 2015; therefore no disclosure of such information is needed.



**C. Information Relating to Employee Bonuses and Remuneration to Directors and Supervisors of the Board:**

1. The percentages or ranges with respect to employee bonuses and director/supervisor remuneration, as set forth in the company's articles of incorporation:

The employee bonuses allocation range is between 0.01%~0.05%. However, the remuneration to directors of the Board is not mentioned in the Articles of Incorporation.

2. The basis for estimating the amount of employee bonuses and director/supervisor remuneration, for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

Estimation of the fair value of employee bonuses is recognized as current-period expenses based on the Bank's net income after tax minus an appropriate reserve at the end of the accounting period multiplied by the most appropriate estimate set by the Bank's articles of incorporation. However, if later the actual allocation amount pursuant to a resolution of the Bank's board of directors on behalf of shareholders is different from the estimated number, the difference would be recognized as the profit or loss of the next year.

3. Information on any employee bonus distribution proposal approved by the board of directors:

- (1) Distribution of cash bonuses or stock bonuses to employees, and compensation for directors and supervisors. If there is any discrepancy between such an amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed:

- a. Cash bonus of employee is NT\$7,187 thousand.

- b. The discrepancy: Accrued expense of employee bonus is NT\$4,973 thousand. The discrepancy between the actual allocation amount and accrued expense for employee bonus is NT\$2,214 thousand.

- c. Reason: The discrepancy caused is due to the following reasons:

- The number of special reserve used to estimate accrued expense is different from the final one provided to the auditor.
- The monthly closing number of net income before tax and employee bonus used to estimate accrued expense is different from the audit one.

- d. Treatment: The difference would be treated as change in accounting estimates of year 2015.

- (2) The amount of any proposed distribution of employee stock bonuses, and the size of such an amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee bonuses:

It is not applicable due to no employee bonus distributed in the form of stock.

- (3) The annual report shall assess the effect upon imputed earnings per share of any proposed distribution of employee bonuses and director/supervisor compensation:

It is not applicable due to the employee bonuses and remuneration to directors and supervisors of the Board has been expensed from January 1, 2008.

4. The actual distribution of employee bonuses and director/supervisor remuneration for year 2013 (with an indication of the number, dollar amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee bonuses and director/supervisor remuneration, additionally the discrepancy, cause, and how it is treated:

|                                                   | Year 2013                                                       |                    |                   |                                                                                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------|-----------------------------------------------------------------|--------------------|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                   | Distributed with the Resolution from the Annual General Meeting | Recognized Expense | Difference (Note) | Explanation                                                                                                                                                                                                                                                                                                                                                              |
| Distribution status :                             |                                                                 |                    |                   |                                                                                                                                                                                                                                                                                                                                                                          |
| A.Employee bonus distributed in the form of cash  | NT\$3,235 thousand                                              | NT\$3,218 thousand | NT\$17 thousand   | <p>The difference is due to the following reasons :</p> <p>1.The monthly closing number of net deduction of other items in equity which needed to be set aside as special reserve is different from the final one provided to the auditor.</p> <p>2.The monthly closing number of adjusted net loss in 2012 is different from the final one provided to the auditor.</p> |
| B.Employee bonus distributed in the form of stock |                                                                 |                    |                   |                                                                                                                                                                                                                                                                                                                                                                          |
| (1) shares                                        | -                                                               | -                  | -                 |                                                                                                                                                                                                                                                                                                                                                                          |
| (2) amount                                        | -                                                               | -                  | -                 |                                                                                                                                                                                                                                                                                                                                                                          |
| (3) stock price                                   | -                                                               | -                  | -                 |                                                                                                                                                                                                                                                                                                                                                                          |
| C.Remuneration to Directors and Supervisors       | -                                                               | -                  | -                 |                                                                                                                                                                                                                                                                                                                                                                          |

Note: The difference amounting to NT\$17 thousand regarded as changes in accounting estimates and recognized as profit or loss of year 2014.

## V. Internal Control Representation

### Internal Control Representation

Financial Supervisory Commission,

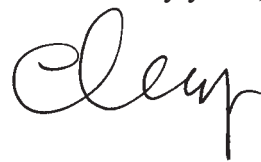
On behalf of CTBC Bank Co., Ltd, we hereby certify that the company's internal control system and risk management mechanism for the fiscal year of 2014 have been implemented and audited by the independent internal auditors as to comply with "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries", and the internal audit reports are periodically presented to the company's Board of Directors and the Audit Committee. For the securities business operations, the company has evaluated the effectiveness of related internal control system in accordance with requirements promulgated by "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets".

Except items listed on attachments, we hereby certify that the company complies with all related laws and regulations, and the internal controls are effectively in place. This representation is part of the annual report and publicly disclosed.

We understand that we are legally bound to SEC ordinance #20, 32, 171 & 174.

Sincerely yours,

Chairman



President



Acting General Auditor



Chief Compliance Officer



**CTBC Bank Co., Ltd.**

**Internal Control System - Items for Improvement/Improvement Plan**

**(Cut-off Date: 2014.12.31)**

| Items for Improvement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Improvement Measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Scheduled Date of Completion                                                                                                                                            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1. In light of CTBC Bank's business relationship with FIE Technologies Inc., the internal control system of the bank was considered not properly implemented. It violated Article 45-1, Paragraph 1 of the Banking Act. A fine of NT\$10 million was imposed, and CTBC Bank's overseas expansion and new investment will be suspended until Financial Supervisory Commission (FSC) recognizes the completion of improvement. &lt;Letter Jin-Guan-Yin-Kong-Zi No.10300026681, March 11, 2014&gt;</p>                                                                                                                                                                                                                                                                                                                               | <ol style="list-style-type: none"> <li>1. CTBC Bank had terminated the contract with FIE Technologies Inc.</li> <li>2. CTBC Bank will enhance de facto related parties management, trainings on relevant laws and regulations, and periodical reporting to Board from management and audit unit.</li> <li>3. The purpose and necessity of the establishment of new companies will be scrutinized.</li> <li>4. CTBC Bank will strictly examine the necessity of outsourcing operations, screen the relationship of counterparties, and enhance the testing by the second line of defense.</li> <li>5. CTBC Bank has deleted bank staff's webmail accesses, and will periodically scrutinize the necessity of staff's outgoing e-mail authority.</li> </ol> | <p>Relevant improvement measures had been completed, and were submitted to FSC in December 2014.</p>                                                                    |
| <p>2. According to FSC target examination report, CTBC Bank treasury marketing business was concluded with deficiencies in risk management, know your customer (KYC), and know your product (KYP) process, as well as customer interests protection. It violated Article 45-1, Paragraph 1 of the Banking Act (the Act). A fine of NT\$2 million was imposed in accordance with Article 129, Subparagraph 7 of the Act. An official reprimand was also issued according to Article 61-1 of the Act. In addition, the said examination report mentioned that customers' trading limit did not properly take into account their financial capacity, product prospectus and risk disclosure statements were not duly handed over to customers engaged in complicated high risk trading, only English version product prospectus and</p> | <p>CTBC Bank had:</p> <ol style="list-style-type: none"> <li>1. revised relevant guidelines related to application and approval of treasury product trading limit, product suitability checking of derivatives, and KYC process;</li> <li>2. provided adequate transaction documentation and revised risk disclosure contents. Explanations to non-professional investors were elaborated and audio tape recorded;</li> <li>3. provided standard product prospectus and risk disclosure statements to non-professional investors for their perusal and confirmation;</li> <li>4. provided both Chinese and English version of transaction documents and confirmations to clients; and</li> </ol>                                                          | <p>Improvement Measures #1, #2, and #5 had been implemented in July/August 2014. Improvement Measures #3 and #4 had been replied to FSC in June and September 2014.</p> |

| Items for Improvement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Improvement Measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Scheduled Date of Completion                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| transaction confirmations were provided to professional investors, and the selling of treasury products were facilitated by ineligible bank staff. <Letter Jin-Guan-Yin-Kong-Zi No.1036000292G, June 25, 2014>                                                                                                                                                                                                                                                                                                                                                                                                                    | 5. re-examined remuneration and performance appraisal system, reiterated the qualification for derivatives selling, continued reminding and training relevant laws and regulations, and performed sample check on dealing room telephone recording.                                                                                                                                                                                                                                         |                                                                                                                                                 |
| 3. It was found that a former employee in Minzu Branch of CTBC Bank engaged in misconduct of fictitious transactions through the Interactive Voice Response System and delivered falsified monthly statements to clients. It may affect the sound operation of the Bank. In accordance with Article 61-1, Paragraph 1 of the Banking Act (the Act), an official reprimand was issued. CTBC Bank was also ordered to dismiss the involved employee in accordance with Article 61-1, Paragraph 1, Subparagraph 3 of the Act. <Letter Jin-Guan-Yin-Kong-Zi No.10300244080, October 27, 2014>                                         | 1. CTBC Bank had requested branch managers to enhance periodical check on the transactions of confidential accounts.<br>2. CTBC Bank have kept persuading confidential account holders to cease the confidentiality arrangement.<br>3. The business managers are requested to assume more supervisory responsibilities.<br>4. The employee involved was dismissed on April 25, 2014.                                                                                                        | The improvement measures had been implemented by September 2014.                                                                                |
| 4. It was noted by Ministry of Finance that CTBC Bank and Taiwan Lottery Corp. have lost contracts of 12 instant lottery retailers. CTBC Bank, as the Issuing Institute, failed to preserve all relevant financial and operational documents for at least 10 years as prescribed in Article 31, Paragraph 1 of the “Regulations Governing Public Welfare Lottery”. As all these contracts had been replaced with re-signed ones, a fine of NT\$100 thousand was imposed according to Article 17, Paragraph 1, Subparagraph 6 of the “Public Welfare Lottery Issue Act”. <Letter Tai-Chai-Ku-Zi No.10303765260, November 17, 2014> | 1. CTBC Bank had improved the procedures by making photos after signing contracts, and then activating retailer flag in the system.<br>2. CTBC Bank will establish follow-up audit trails from retailer application, contract signing, to contract filing through system enhancement. CTBC Bank “Guidelines Governing Instant Lottery Retailer Contracts” and “Guidelines Governing Instant Lottery Retailer Information Management” will be continuously reviewed and revised accordingly. | 1. Improvement measures had been completed by November 2014.<br>2. Relevant mechanism and guidelines are scheduled to be revised by March 2015. |
| 5. CTBC Bank Hong Kong Branch disposed Bank Debentures amounting to US\$10 million on November 12, 2014. Yet CTBC Holding failed to post the public announcement on behalf of CTBC Bank to the Market Observation Post System until December 8, 2014,                                                                                                                                                                                                                                                                                                                                                                             | In CTBC Bank Hong Kong Branch, an internal control process was established and Loan Sale Checklist was revised to ensure the completion of public announcement. In addition, Hong Kong Branch had reiterated related process requirement and                                                                                                                                                                                                                                                | Relevant improvement measures had been completed by December 2014.                                                                              |

| Items for Improvement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Improvement Measures                                                                                                                                                                                                                                                                                                                          | Scheduled Date of Completion                                                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p>which violated Article 36-1 of the Securities and Exchange Act, Article 30, Paragraph 1, Subparagraph 4 and Article 33 of “Regulations Governing the Acquisition and Disposal of Assets by Public Companies”, and Article 4, Paragraph 1, Subparagraph 20 of “Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities”. The responsible person of CTBC Holding was fined by FSC for NT\$240 thousand, and CTBC Holding was fined by TWSE for NT\$50 thousand due to breaching contract. &lt;Letter Jin-Guan-Zheng-Fa-Fa-Zi No.1040000231, January 13, 2015&gt;, &lt;Letter Tai-Zheng-Shang-Yi-Zi No.1031806134, December 17, 2014&gt;</p> | <p>conducted staff training to prevent similar recurrences.</p>                                                                                                                                                                                                                                                                               |                                                                                                                  |
| <p>6. The regulatory examination to CTBC Bank Shanghai Branch in 2014 disclosed major deficiencies, namely the principles of credit portfolio mix were not established as requested by headquarters in order to manage credit risks, the variation of borrowers’ financials and business status were not thoroughly analyzed, and the repayment capabilities of borrowers and guarantors were not prudently evaluated.</p>                                                                                                                                                                                                                                                                                                    | <ol style="list-style-type: none"> <li>1. Principles of credit portfolio mix had been stated in the Shanghai Branch’s 2015 Business Plan to diversify credit portfolio risks.</li> <li>2. Credit investigation reports will elaborate more on evaluation of borrowers’ industry development, earnings and profitability variation.</li> </ol> | <p>Principles of credit portfolio mix had been proposed; and improvement measures had been submitted to FSC.</p> |

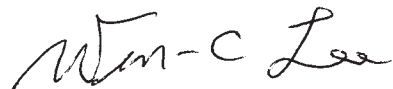


## **VI. Audit Committee's Report of the Financial Statement Of the Last Year**

### **The Audit Committee's Report**

In accordance with Article 14-4 of Security and Exchange Law and with Article 219 of the Company Act, the undersigned, have duly examined and accepted as correct the financial report (unconsolidated and consolidated) for the year 2014 along with the business report and earnings distribution plan submitted by the Board of Directors of CTBC Bank Co., Ltd.

**CTBC Bank Co., Ltd.**  
**Audit Committee Convener**

A handwritten signature in black ink, appearing to read 'Wen-Chih Lee'.

Wen-Chih Lee  
Taipei, Taiwan, R.O.C.  
April 24, 2015

## VII. Head Office and Domestic Branches

### Domestic Branches

| Branch Name                         | Address                                                                                     | Telephone        |
|-------------------------------------|---------------------------------------------------------------------------------------------|------------------|
| Head Office<br>(Banking Department) | 1F., No. 168, Jingmao 2nd Rd., Nangang Dist., Taipei City 115, Taiwan (R.O.C.)              | +886-2-33271688  |
| Jhancian Branch                     | 1F., No. 4, Sec. 1, Zhongxiao W. Rd., Zhongzheng Dist., Taipei City 100, Taiwan (R.O.C.)    | +886-2-23113598  |
| Huashan Branch                      | 1F., No. 55, Sec. 1, Zhongsiao E. Rd., Zhongzheng Dist., Taipei City 100, Taiwan (R.O.C.)   | +886-2-23413000  |
| Dongmen Branch                      | 1F., No. 213, Sec. 2, Sinyi Rd., Zhongzheng Dist., Taipei City 100, Taiwan (R.O.C.)         | +886-2-23958000  |
| Chengjhong Branch                   | 1F., No. 83, Sec. 1, Chongcing S. Rd., Zhongzheng Dist., Taipei City 100, Taiwan (R.O.C.)   | +886-2-23818740  |
| Daan Branch                         | 1F., No. 102, Sec. 2, Roosevelt Rd., Zhongzheng Dist., Taipei City 100, Taiwan (R.O.C.)     | +886-2-33651988  |
| Mincyuan West Road Branch           | 1F., No. 104-1, Mincyuan W. Rd., Datong Dist., Taipei City 103, Taiwan (R.O.C.)             | +886-2-25572919  |
| Chengde Branch                      | 1F., No. 17, Sec. 1, Chengde Rd., Datong Dist., Taipei City 103, Taiwan (R.O.C.)            | +886-2-25562088  |
| Sihu Mini Branch                    | 1F., No. 244, Sec. 1, Neihu Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)              | +886-2-27999588  |
| Jhongshan Branch                    | 1F., No. 106-2, Sec. 2, Zhongshan N. Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.) | +886-2-25235222  |
| Minsheng Branch                     | 1F., No. 58, Sec.1, Minsheng E. Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.)      | +886-2-25641818  |
| East Minsheng Branch                | 1F., No. 51, Sec. 3, Minsheng E. Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.)     | +886-2-25093656  |
| Dazhi Branch                        | 1F., No. 638, Mingshuei Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.)              | +886-2-85026002  |
| Chengbei Branch                     | 1F., No. 218, Songjiang Rd., Zhongshan Dist., Taipei City 104, Taiwan(R.O.C.)               | +886-2-25623789  |
| Nanjing East Road Branch            | 1F., No. 16, Sec. 1, Nanjing E. Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.)      | +886-2-25232238  |
| Chengdong Branch                    | 1F., No. 88, Sec. 2, Nanjing E. Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.)      | +886-2-25677377  |
| Longjiang Branch                    | 1F., No. 65, Sec. 3, Nanjing E. Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.)      | +886-2-25158811  |
| Chang An Branch                     | No. 26, Fusing N. Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.)                    | +886-2- 27785881 |
| Jhunglun Branch                     | 1F., No. 85, Sec. 4, Bade Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.)             | +886-2-27672669  |
| Fujin Branch                        | 1F., No. 165, Sec. 5, Minsheng E. Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.)     | +886-2-27602766  |
| Sisong Branch                       | 1F., No. 161, Sec. 5, Nanjing E. Rd., Songshan Dist., Taipei City 105, Taiwan, (R.O.C.)     | +886-2-37655588  |
| Fubei Branch                        | 1F., No. 363, Fusing N. Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.)               | +886-2-87705566  |
| Dunbei Branch                       | 1F., No. 122, Dunhua N. Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.)               | +886-2-27133322  |
| Renai Branch                        | 1F., No. 341, Sec. 4, Renai Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)               | +886-2-27754600  |
| Anhe Branch                         | 1F., No. 195, Sec. 2, Anhe Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)                | +886-2-27386171  |
| Yanji Branch                        | 1F., No. 298, Sec. 4, Zhongsiao E. Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)        | +886-2-27716000  |
| Jhongsiao Branch                    | 1F., No. 71, Sec. 4, Zhongsiao E. Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)         | +886-2-27520310  |
| Sinyi Branch                        | 1F., No. 236, Sec. 4, Sinyi Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)               | +886-2-27079977  |
| Fusing Branch                       | 1F., No. 251, Sec. 1, Dunhua S. Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)           | +886-2-27771988  |
| Dunnan Branch                       | 1F., No. 68, Sec. 2, Dunhua S. Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)            | +886-2-23253616  |
| Gungguan Branch                     | 1F., No. 311, Sec. 3, Roosevelt Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)           | +886-2-23623377  |
| Wanhua Branch                       | 1F., No. 92, Sec. 2, Changsha St., Wanhua Dist., Taipei City 108, Taiwan (R.O.C.)           | +886-2-23898188  |
| Yongji Branch                       | 1F., No. 18, Yongji Rd., Sinyi Dist., Taipei City 110, Taiwan (R.O.C.)                      | +886-2-27617999  |
| Songshan Branch                     | 1F., No. 550, Sec. 5, Zhongsiao E. Rd., Sinyi Dist., Taipei City 110, Taiwan (R.O.C.)       | +886-2-23466711  |

| Branch Name           | Address                                                                                    | Telephone       |
|-----------------------|--------------------------------------------------------------------------------------------|-----------------|
| Shinfu Branch         | 1F., No. 9, Songgao Rd., Sinyi Dist., Taipei City 110, Taiwan (R.O.C.)                     | +886-2-27221668 |
| Tianmu Branch         | 1F., No. 90, Sec. 6, Jhongshan N. Rd., Shihlin Dist., Taipei City 111, Taiwan (R.O.C.)     | +886-2-28322888 |
| Shihlin Branch        | 1F., No. 307, Jhongjheng Rd., Shihlin Dist., Taipei City 111, Taiwan (R.O.C.)              | +886-2-28839900 |
| North Tianmu Branch   | 1F., No. 10, Tianmu W. Rd., Shilin Dist., Taipei City 111, Taiwan (R.O.C.)                 | +886-2-28766100 |
| Jiantan Branch        | 1F., No. 150, Sec. 4, Chengde Rd., Shilin Dist., Taipei City 111, Taiwan (R.O.C.)          | +886-2-28827979 |
| Shihpai Branch        | 1F., No. 46, Sec. 2, Shihpai Rd., Beitou Dist., Taipei City 112, Taiwan (R.O.C.)           | +886-2-28213366 |
| Beitou Branch         | 1F., No. 217, Guangming Rd., Beitou Dist., Taipei City 112, Taiwan (R.O.C.)                | +886-2-28983039 |
| Rueiguang Branch      | No. 514, Sec. 1, Neihu Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)                  | +886-2-27985600 |
| Chenggong Branch      | 1F., No. 161, Sec. 4, Chenggong Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)         | +886-2-87911686 |
| Neihu Branch          | 1F., No. 358, Sec. 4, Chenggong Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)         | +886-2-27938668 |
| Donghu Mini Branch    | 1F., No. 182, Sec. 3, Kangning Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)          | +886-2-26312288 |
| Mujha Branch          | 1F., No. 69, Sec. 3, Mujha Rd., Wunshan Dist., Taipei City 116, Taiwan (R.O.C.)            | +886-2-29375890 |
| Wunshan Branch        | 1F., No. 248, Sec. 4, Sinhai Rd., Wunshan Dist., Taipei City 116, Taiwan (R.O.C.)          | +886-2-29335358 |
| Jingmei Branch        | No. 405, Sec. 6, Roosevelt Rd., Wenshan Dist., Taipei City 116, Taiwan (R.O.C.)            | +886-2-29329838 |
| Keelung Branch        | 1F., No. 150, Sinyi Rd., Sinyi Dist., Keelung City 201, Taiwan (R.O.C.)                    | +886-2-24221166 |
| Bansin Branch         | 1F., No. 293-1, Sec. 1, Jhongshan Rd., Banciao Dist., New Taipei City 220, Taiwan (R.O.C.) | +886-2-89611500 |
| Banciao Branch        | 1F., No. 187, Sec. 1, Wunhua Rd., Banciao Dist., New Taipei City 220, Taiwan (R.O.C.)      | +886-2-29606600 |
| Chongcing Branch      | 1F., No. 290, Chongcing Rd., Banciao Dist., New Taipei City 220, Taiwan (R.O.C.)           | +886-2-29634567 |
| Sinbanteacy Branch    | 1F., No. 88, Sec. 2, Sianmin Blvd., Banqiao Dist., New Taipei City 220, Taiwan (R.O.C.)    | +886-2-29619666 |
| Jiangcui Branch       | 1F., No. 8, Sec. 3, Shuang 10th Rd., Banciao Dist., New Taipei City 220, Taiwan (R.O.C.)   | +886-2-22578999 |
| Sijhih Branch         | 1F., No. 210, Sec. 2, Datong Rd., Sijhih Dist., New Taipei City 221, Taiwan (R.O.C.)       | +886-2-26489699 |
| Sindian Branch        | 1F., No. 6, Sec. 2, Beisin Rd., Sindian Dist., New Taipei City 231, Taiwan (R.O.C.)        | +886-2-29129988 |
| North Sindian Branch  | 1F., No. 25, Mincyuan Rd., Sindian Dist., New Taipei City 231, Taiwan (R.O.C.)             | +886-2-29135000 |
| Baociang Branch       | 1F., No. 31, Baociang Rd., Sindian Dist., New Taipei City 231, Taiwan (R.O.C.)             | +886-2-29123366 |
| Yonghe Branch         | 1F., No. 215, Sec. 1, Jhongshan Rd., Yonghe Dist., New Taipei City 234, Taiwan (R.O.C.)    | +886-2-89235008 |
| Shuanghe Branch       | 1F., No. 588, Jhongjheng Rd., Yonghe Dist., New Taipei City 234, Taiwan (R.O.C.)           | +886-2-29233333 |
| Nashihjiao Branch     | 1F., No. 65, Jhongjheng Rd., Yonghe Dist., New Taipei City 234, Taiwan (R.O.C.)            | +886-2-29498838 |
| Banhe Mini Branch     | 1F., No. 726, Jhongjheng Rd., Jhonghe Dist., New Taipei City 235, Taiwan (R.O.C.)          | +886-2-82261288 |
| Jhonghe Branch        | 1F., No. 66, Liancheng Rd., Jhonghe Dist., New Taipei City 235, Taiwan (R.O.C.)            | +886-2-22452277 |
| Tucheng Branch        | 1F., No. 304, Sec. 2, Jhongyang Rd., Tucheng Dist., New Taipei City 236, Taiwan (R.O.C.)   | +886-2-22630888 |
| Jincheng Branch       | 1F., No. 16, Sec. 3, Jincheng Rd., Tucheng Dist., New Taipei City 236, Taiwan (R.O.C.)     | +886-2-22601177 |
| Shulin Branch         | 1F., No. 122, Sec. 1, Jhongshan Rd., Shulin Dist., New Taipei City 238, Taiwan (R.O.C.)    | +886-2-26812345 |
| Sanhe Branch          | 1F., No. 119, Sec. 4, Sanhe Rd., Sanchong Dist., New Taipei City 241, Taiwan (R.O.C.)      | +886-2-22863286 |
| Sanchong Branch       | 1F., No. 208, Jhengyi N. Rd., Sanchong Dist., New Taipei City 241, Taiwan (R.O.C.)         | +886-2-29828121 |
| Erchongpu Mini Branch | 1F., No. 70-1, Sec. 1, Guangfu Rd., Sanchong Dist., New Taipei City 241, Taiwan (R.O.C.)   | +886-2-29959876 |
| Chongyang Branch      | 1F., No. 66, Sec. 1, Chongyang Rd., Sanchong Dist., New Taipei City 241, Taiwan (R.O.C.)   | +886-2-89881199 |
| Chongsin Branch       | 1F., No. 42-1, Sec. 2, Chongsin Rd., Sanchong Dist., New Taipei City 241, Taiwan (R.O.C.)  | +886-2-89726189 |
| Sinjhuang Branch      | 1F., No. 320, Jhongjheng Rd., Sinjhuang Dist., New Taipei City 242, Taiwan (R.O.C.)        | +886-2-29929696 |

| Branch Name                | Address                                                                                  | Telephone       |
|----------------------------|------------------------------------------------------------------------------------------|-----------------|
| Danfong Branch             | 1F., No. 879-15, Jhongjheng Rd., Sinjhuang Dist., New Taipei City 242, Taiwan (R.O.C.)   | +886-2-29066888 |
| North Sinjhuang Branch     | 1F., No. 57, Sec. 2, Jhonghua Rd., Sinjhuang Dist., New Taipei City 242, Taiwan (R.O.C.) | +886-2-22776789 |
| Minan Mini Branch          | 1F., No. 179, Min-an Rd., Sinjhuang Dist., New Taipei City 242, Taiwan (R.O.C.)          | +886-2-22068887 |
| Lujhou Branch              | 1F., No. 211, Jhongshan 1st Rd., Lujhou Dist., New Taipei City 247, Taiwan (R.O.C.)      | +886-2-28482008 |
| East Lujhou Branch         | 1F., No. 135, Minzu Rd., Lujhou Dist., New Taipei City 247, Taiwan (R.O.C.)              | +886-2-22839300 |
| North Lujhou Branch        | 1F., No. 355, Changrong Rd., Lujhou Dist., New Taipei City 247, Taiwan (R.O.C.)          | +886-2-22881999 |
| Danshuei Mini Branch       | 1F., No. 123, Jhongshan Rd., Danshuei Dist., New Taipei City 251, Taiwan (R.O.C.)        | +886-2-86318822 |
| Yilan Branch               | 1F., No. 271, Sec.2, Jhongshan Rd.,Yilan City,Yilan County 260, Taiwan(R.O.C.)           | +886-3-9351122  |
| Lohdong Branch             | 1F., No. 232, Singdong S. Rd., Luodong Township, Yilan County 265, Taiwan (R.O.C.)       | +886-3-9574320  |
| Hsinchu Branch             | 1F., No. 158, Jhongjheng Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)              | +886-3-5222687  |
| Guangfu Branch             | No. 35, Ln. 19, Guanxin Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)               | +886-3-5790678  |
| Jhuke Branch               | 1F., No. 2, Jinshan St., East Dist., Hsinchu City 300, Taiwan (R.O.C.)                   | +886-3-5638080  |
| East Hsinchu Branch        | 1F., No. 32, Jianjhong Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)                | +886-3-5749190  |
| Baoshan Branch             | No. 301, Shihpin Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)                      | +886-3-5628877  |
| Jingguo Branch             | 1F., No. 375, Sec. 1, Jingguo Rd., Hsinchu City 300, Taiwan (R.O.C.)                     | +886-3-5357655  |
| Jhupei Branch              | 1F., No. 49, Guangming 6th Rd., Jhubei City, Hsinchu County 302, Taiwan (R.O.C.)         | +886-3-6560222  |
| Jhongyuan Branch           | 1F., No. 445, Sec. 2, Jhongbei Rd., Jhongli Dist., Taoyuan City 320, Taiwan (R.O.C.)     | +886-3-4662211  |
| Neili Mini Branch          | 1F., No. 262, Sec. 1, Zhonghua Rd., Jhongli Dist., Taoyuan City 320, Taiwan (R.O.C.)     | +886-3-4611998  |
| Jhongli Branch             | 1F., No. 500, Yanping Rd., Jhongli Dist., Taoyuan City 320, Taiwan (R.O.C.)              | +886-3-4223131  |
| Nan JungLi Branch          | No. 68, Huannan Rd., Pingzhen Dist., Taoyuan City 324, Taiwan (R.O.C.)                   | +886-3-4028788  |
| Yiwun Branch               | No. 1351, Zhongzheng Rd., Taoyuan Dist., Taoyuan City 330, Taiwan (R.O.C.)               | +886-3-3018000  |
| Taoyuan Branch             | 1F., No. 32, Sec. 1, Chenggong Rd., Taoyuan Dist., Taoyuan City 330, Taiwan (R.O.C.)     | +886-3-3373266  |
| South Taoyuan Branch       | 1F., No. 389, Fusing Rd., Taoyuan Dist., Taoyuan City 330, Taiwan (R.O.C.)               | +886-3-3388866  |
| North Taoyuan Branch       | 1F., No. 124, Jingguo Rd., Taoyuan Dist., Taoyuan City 330,Taiwan (R.O.C.)               | +886-3-3150566  |
| Linkou Branch              | 1F., No. 233, Fuxing 1st Rd., Guishan Dist., Taoyuan City 333, Taiwan (R.O.C.)           | +886-3-3962777  |
| Bade Branch                | 1F., No. 965, Sec. 1, Jieshou Rd., Bade Dist., Taoyuan City 334, Taiwan (R.O.C.)         | +886-3-3716565  |
| Nankan Branch              | 1F., No. 257, Jhongjheng Rd., Lujhu Dist., Taoyuan City 338, Taiwan (R.O.C.)             | +886-3-3212211  |
| Toufen Branch              | 1F., No. 951, Jhonghua Rd., Toufen Township, Miaoli County 351, Taiwan (R.O.C.)          | +886-3-7695678  |
| Taichung Branch            | 1F., No. 50, Minzu Rd., Central Dist., Taichung City 400, Taiwan (R.O.C.)                | +886-4-22292161 |
| Keboguan Branch            | 1F., No. 239, Sec. 2, Taiwan Blvd., West Dist., Taichung City 403, Taiwan (R.O.C.)       | +886-4-23101258 |
| Chunggang Branch           | 1F., No. 536, Sec. 2, Taiwan Blvd., West Dist., Taichung City 403, Taiwan (R.O.C.)       | +886-4-23149999 |
| North Taichung Mini Branch | 1F., No. 77, Yucal N. Rd., North Dist., Taichung City 404, Taiwan (R.O.C.)               | +886-4-22231666 |
| Wunsin Branch              | 1F., No. 875, Sec. 4, Wunsin Rd., Beitun Dist., Taichung City 406, Taiwan (R.O.C.)       | +886-4-22469988 |
| Shizheng Branch            | No. 93, Sec. 2, Wenxin Rd., Xitun Dist., Taichung City 407, Taiwan (R.O.C.)              | +886-4-22545333 |
| Situn Branch               | 1F., No. 859, Sec. 4, Taiwan Blvd., Situn Dist., Taichung City 407, Taiwan (R.O.C.)      | +886-4-23551000 |
| Nantun Branch              | 1F., No. 234, Sec. 2, Wucyuan W. Rd., Nantun Dist., Taichung City 408, Taiwan (R.O.C.)   | +886-4-24712268 |
| Gongyi Branch              | 1F., No. 53, Sec. 2, Gongyi Rd., Nantun Dist., Taichung City 408, Taiwan (R.O.C.)        | +886-4-23291111 |
| Hueijhong Mini Branch      | No. 88, Sec. 3, Hueijhong Rd., Nantun Dist., Taichung City 408, Taiwan (R.O.C.)          | +886-4-23891269 |

| Branch Name            | Address                                                                                  | Telephone       |
|------------------------|------------------------------------------------------------------------------------------|-----------------|
| Dali Branch            | 1F., No. 20, Dongrong Rd., Dali Dist., Taichung City 412, Taiwan (R.O.C.)                | +886-4-24813333 |
| Fongyuan Branch        | 1F., No. 545, Jhongjheng Rd., Fongyuan Dist., Taichung City 420, Taiwan (R.O.C.)         | +886-4-25201010 |
| Nantou Mini Branch     | 1F., No. 220, Jhongshan St., Nantou City, Nantou County 540, Taiwan (R.O.C.)             | +886-49-2207711 |
| Changhua Branch        | 1F., No. 76, Siaoyang Rd., Changhua City, Changhua County 500, Taiwan (R.O.C.)           | +886-4-7279933  |
| Yuanlin Branch         | 1F., No. 372, Jhongjheng Rd., Yuanlin Township, Changhua County 510, Taiwan (R.O.C.)     | +886-4-8368676  |
| Chiayi Branch          | 1F., No. 241, Minsheng N. Rd., Chiayi City 600, Taiwan (R.O.C.)                          | +886-5-2286600  |
| Douliou Branch         | 1F., No. 2, Singhua St., Douliou City, Yunlin County 640, Taiwan (R.O.C.)                | +886-5-5360099  |
| Central Tainan Branch  | 1F., No. 167, Sec. 1, Minsheng Rd., West Central Dist., Tainan City 700, Taiwan (R.O.C.) | +886-6-2412318  |
| Tainan Branch          | 1F., No. 159, Sec. 1, Fucian Rd., West Central Dist., Tainan City 700, Taiwan (R.O.C.)   | +886-6-2152345  |
| West Tainan Branch     | 1F., No. 212, Sec. 4, Jinhua Rd., West Central Dist., Tainan City 700, Taiwan (R.O.C.)   | +886-6-2263636  |
| Jhonghua Branch        | 1F., No. 195, Sec. 2, Jhonghua E. Rd., East Dist., Tainan City 701, Taiwan (R.O.C.)      | +886-6-3353535  |
| East Tainan Branch     | 1F., No. 290, Sec. 2, Changrong Rd., East Dist., Tainan City 701, Taiwan (R.O.C.)        | +886-6-2085522  |
| South Tainan Branch    | 1F., No. 236, Sec. 2, Jiankang Rd., South Dist., Tainan City 702, Taiwan (R.O.C.)        | +886-6-2919999  |
| Yan Hang Branch        | 1F., No. 111, Jhongzheng Rd., Yongkang Dist., Tainan City 710, Taiwan (R.O.C.)           | +886-6-2539199  |
| Yongkang Branch        | 1F., No. 425, Jhonghua Rd., Yongkang Dist., Tainan City 710, Taiwan (R.O.C.)             | +886-6-2025787  |
| Rende Mini Branch      | 1F., No. 478, Zhongshan Rd., Rende Dist., Tainan City 717, Taiwan (R.O.C.)               | +886-6-2798099  |
| Jiali Branch           | 1F., No. 410, Jhongshan Rd., Jiali Dist., Tainan City 722, Taiwan (R.O.C.)               | +886-6-7221335  |
| Sinying Branch         | 1F., No. 137, Jhongshan Rd., Sinying Dist., Tainan City 730, Taiwan (R.O.C.)             | +886-6-6336789  |
| Sinsing Branch         | 1F., No. 206, Minsheng 1st Rd., Sinsing Dist., Kaohsiung City 800, Taiwan (R.O.C.)       | +886-7-2262325  |
| Minzu Branch           | 1F., No. 97, Minzu 2nd Rd., Sinsing Dist., Kaohsiung City 800, Taiwan (R.O.C.)           | +886-7-2386567  |
| Kaohsiung Branch       | 1F., No. 168, Jhongjheng 4th Rd., Cianjin Dist., Kaohsiung City 801, Taiwan (R.O.C.)     | +886-7-2318141  |
| East Kaohsiung Branch  | 1F., No. 29, Cingnian 1st Rd., Lingya Dist., Kaohsiung City 802, Taiwan (R.O.C.)         | +886-7-5351885  |
| South Kaohsiung Branch | 1F., No. 21, Yisin 2nd Rd., Cianjhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)          | +886-7-3366768  |
| Cianjhen Mini Branch   | 1F., No. 480, Rueilong Rd., Cianjhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)          | +886-7-7261066  |
| Jiouru Branch          | 1F., No. 551, Jiouru 1st Rd., Sanmin Dist., Kaohsiung City 807, Taiwan (R.O.C.)          | +886-7-3805558  |
| Sanmin Branch          | 1F., No. 366, Jiouru 2nd Rd., Sanmin Dist., Kaohsiung City 807, Taiwan (R.O.C.)          | +886-7-3161155  |
| North Kaohsiung Branch | 1F., No. 52, Mingcheng 2nd Rd., Sanmin Dist., Kaohsiung City 807, Taiwan (R.O.C.)        | +886-7-3461199  |
| Youchang Mini Branch   | 1F., No. 803-3, Houchang Rd., Nanzih Dist., Kaohsiung City 811, Taiwan (R.O.C.)          | +886-7-3681699  |
| Boai Branch            | 1F., No. 88, Bo-ai 2nd Rd., Zuoying Dist., Kaohsiung City 813, Taiwan (R.O.C.)           | +886-7-5567909  |
| Gangshan Mini Branch   | 1F., No. 388, Gangshan Rd., Gangshan Dist., Kaohsiung City 820, Taiwan (R.O.C.)          | +886-7-6235500  |
| Fongshan Branch        | 1F., No. 85-1, Jhongshan Rd., Fongshan Dist., Kaohsiung City 830, Taiwan (R.O.C.)        | +886-7-7451199  |
| Wujia Branch           | 1F., No. 699, Wujia 2nd Rd., Fongshan Dist., Kaohsiung City 830, Taiwan (R.O.C.)         | +886-7-8215101  |
| Cingnian Branch        | 1F., No. 315, Sec. 2, Cingnian Rd., Fongshan Dist., Kaohsiung City 830, Taiwan (R.O.C.)  | +886-7-7777668  |
| Pingtung Branch        | 1F., No. 450, Zihyou Rd., Pingtung City, Pingtung County 900, Taiwan (R.O.C.)            | +886-8-7383000  |
| Taitung Mini Branch    | 1F., No. 279, Jhongshan Rd., Taitung City, Taitung County 950, Taiwan (R.O.C.)           | +886-8-9339898  |
| Hualien Branch         | 1F., No. 376, Jhongshan Rd., Hualien City, Hualien County 970, Taiwan (R.O.C.)           | +886-3-8340566  |
| East Hualien Branch    | 1F., No. 1-7, Gongyuan Rd., Hualien City, Hualien County 970, Taiwan (R.O.C.)            | +886-3-8351101  |



## Overseas Service Outlets

### Branch

| Units                   | Address                                                                                                                 | Telephone       | Fax             |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Hong Kong Branch        | Suite 2801, 28/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong                               | 852-2916-1888   | 852-2810-9742   |
| Kowloon Branch          | 5/F, Tower 2, The Gateway, No. 25 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong                                        | 852-2916-1688   | 852-2805-0899   |
| Singapore Branch        | 8 Marina View, #33-02, Asia Square Tower 1, Singapore 018960                                                            | 65-6351-4888    | 65-6532-5999    |
| Shanghai Branch         | 27F, Shanghai World Financial Center, 100 Century Avenue, Pudong New Area, Shanghai 200120, P.R.C.                      | 86-21-2080-5888 | 86-21-6877-8788 |
| New York Branch         | 11F, #521 Fifth Avenue, New York, NY 10175, USA                                                                         | 1-212-4578888   | 1-212-4576666   |
| New Delhi Branch        | Upper Ground Floor, Birla Tower, 25 Barakhamba Road, New Delhi 110001, India                                            | 91-11-43688888  | 91-11-43688873  |
| Sriperumbudur Branch    | Plot No.42 (old No. 105) Chennai Bangalore Highways NH4, Sriperumbudur, Kancheepuram District, Tamil Nadu-602105, India | 91-44-66227700  | 91-44-66227799  |
| Ho Chi Minh City Branch | Unit 902~909, 9th Floor, Kumho Asiana Plaza Saigon, 39 Le Duan St., Dist. 1, HCMC, Vietnam                              | 848-3910-1888   | 848-3910-1999   |
| Tokyo Branch            | Roppongi Hills Mori Tower, 37F, 10-1 Roppongi 6-Chome, Minato-Ku, Tokyo 106-6137, Japan                                 | 81-3-5413-8168  | 81-3-5413-8140  |

### Subsidiary

| Units                         | Address                                                                                                                      | Telephone      | Fax            |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| The Tokyo Star Bank, Limited  | 2-3-5 Akasaka, Minato-Ku, Tokyo, 107-8480, Japan                                                                             | 81-3-3586-3111 | 81-3-3586-5137 |
| CTBC Bank (Philippines) Corp. | 16th to 19th Floors, Fort Legend Towers, 31st Street Corner 3rd Avenue, Bonifacio Global City, Taguig City, Philippines 1634 | 63-2-9889287   | 63-2-5767935   |
| CTBC Bank Corp. (Canada)      | 1518 West Broadway, Vancouver, B.C., Canada, V6J 1W8                                                                         | 1-604-6833882  | 1-604-6833723  |
| CTBC Bank Corp. (USA)         | 801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017, USA                                                               | 1-310-7912828  | 1-424-2774698  |
| PT Bank CTBC Indonesia        | Wisma Tamara, 15th-17th Fl., Jl Jenderal. Sudirman Kav. 24, Jakarta, 12920, Indonesia                                        | 62-21-25578787 | 62-21-30402286 |

### Representative Office

| Units                             | Address                                                                                                           | Telephone      | Fax            |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Bangkok Representative Office     | Suite 803, 8F, GPF Witthayu, Tower A, 93/1 Wireless Road, Lumpini, Pathumwan, Bangkok 10330, Thailand             | 66-2-2543139   | 66-2-2566480   |
| Hanoi Representative Office       | East-3002, 30th Floor, LOTTE Center Hanoi, No.54 Lieu Giai Street, Cong Vi Ward, Ba Dinh District, Hanoi, Vietnam | 84-4-38249088  | 84-4-38249099  |
| Los Angeles Representative Office | 17851 Colima Road, Suite A1, City of Industry, CA91748, USA                                                       | 1-626-8397660  | 1-626-8393562  |
| Beijing Representative Office     | B-111, The Grand Pacific Building, 8a, Guanghua Rd., Chao Yang District, Beijing, P. R.C. 100026                  | 86-10-65813700 | 86-10-65815701 |



**CTBC BANK CO., LTD.  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL REPORTS  
DECEMBER 31, 2014 AND 2013  
AND  
INDEPENDENT AUDITORS' REPORT**

**Address: No.166, 168, 170, 186, 188 Jingmao 2nd Rd., Nangang Dist., Taipei City 115, Taiwan, R.O.C.  
Telephone Number: 886-2-3327-7777**

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL REPORTS**  
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安侯建業聯合會計師事務所

KPMG

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Xinyi Road, Taipei, 11049, Taiwan, R.O.C.

Telephone 電話 + 886 (2) 8101 6666  
Fax 傳真 + 886 (2) 8101 6667  
Internet 網址 kpmg.com/tw

### Independent Auditors' Report

The Board of Directors  
CTBC Bank Co., Ltd.

We have audited the accompanying consolidated balance sheets of CTBC Bank Co., Ltd. and its subsidiaries as of December 31, 2014 and 2013, and related consolidated comprehensive income statements, changes in consolidated stockholders' equity, and consolidated cash flows for the year ended December 31, 2014 and 2013. 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 generally accepted auditing standards in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements mentioned above present fairly, in all material respects, the consolidated financial position of CTBC Bank Co., Ltd. and its subsidiaries as of December 31, 2014 and 2013, along with its consolidated financial performance and consolidated cash flow for the year ended December 31, 2014 and 2013, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, the Regulations Governing the Preparation of Financial Reports by Securities Firms, the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, International Financial Reporting Standards (IFRSs), International Accounting Standards (IAS), interpretations and pronouncements as accepted by Financial Supervisory Commission.

The structured notes cases as stated in Note 9(D) are still under investigation by the judiciary, and the results remain uncertain.

Individual financial statements of CTBC Bank Co., Ltd. were additionally prepared, and we have expressed a modified unqualified opinion on it for user reference.

KPMG

Taipei, Taiwan, R.O.C.  
March 31, 2015

#### Notice to Readers

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

It should be noted that the independent auditors' report and the accompanying consolidated financial reports were originally prepared in Chinese. As information loss underlies the nature of language transition, when conflicts or ambiguities arise in interpretations between the two versions, the Chinese version shall prevail.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed In Thousands of New Taiwan Dollars)

|                                                                                                                 | For the year ended December 31 |      |              |      | Change    | % |
|-----------------------------------------------------------------------------------------------------------------|--------------------------------|------|--------------|------|-----------|---|
|                                                                                                                 | 2014                           |      | 2013         |      |           |   |
|                                                                                                                 | Amount                         | %    | Amount       | %    |           |   |
| Interest income (Note 6(AH))                                                                                    | \$ 58,828,254                  | 67   | 42,710,280   | 70   | 38        |   |
| Less: Interest expenses (Note 6(AH))                                                                            | (20,568,427)                   | (23) | (14,404,134) | (24) | 43        |   |
| Net interest income (Note 6(AH))                                                                                | 38,259,827                     | 44   | 28,306,146   | 46   | 35        |   |
| Net income except interest                                                                                      |                                |      |              |      |           |   |
| Service fee and commission income (Note 6(AI))                                                                  | 27,554,131                     | 31   | 24,534,645   | 40   | 12        |   |
| Gains on financial assets or liabilities measured at fair value through profit or loss (Note 6(AJ))             | 11,292,188                     | 13   | 5,380,793    | 9    | 110       |   |
| Realized gains on available-for-sale financial assets (Note 6(AK))                                              | 1,651,904                      | 2    | 1,396,024    | 2    | 18        |   |
| Realized gain on held-to-maturity financial assets                                                              | 67,073                         | -    | 382          | -    | 17,458    |   |
| Foreign exchange (losses) gains                                                                                 | (4,441,127)                    | (5)  | 2,310,421    | 4    | (292)     |   |
| Impairment loss (Note 6(AL))                                                                                    | (28,568)                       | -    | (28,942)     | -    | 1         |   |
| Proportionate share of (losses) gains from associates or joint ventures under equity method (Note 6(M))         | (17,192)                       | -    | 74,635       | -    | (123)     |   |
| Other net non-interest income (Note 6(AM))                                                                      | 1,197,619                      | 1    | 912,813      | 2    | 31        |   |
| Gain from a bargain purchase (Note 12(C))                                                                       | 14,814,154                     | 17   | -            | -    | 100       |   |
| Public-welfare lottery payment                                                                                  | (2,700,000)                    | (3)  | (2,086,800)  | (3)  | (29)      |   |
| Net Revenue                                                                                                     | 87,650,009                     | 100  | 60,800,117   | 100  | 44        |   |
| (Provisions for) reversal of bad debt expenses and guarantee reserve (Note 6(J) and (AN))                       | (3,037,977)                    | (3)  | (6,178,819)  | (10) | (51)      |   |
| Operating expenses:                                                                                             |                                |      |              |      |           |   |
| Employee benefits expenses (Note 6(AO))                                                                         | (24,138,685)                   | (28) | (20,295,443) | (33) | 19        |   |
| Depreciation and amortization expenses (Note 6(AP))                                                             | (2,085,765)                    | (2)  | (1,794,015)  | (3)  | 16        |   |
| Other general and administrative expenses (Note 6(AQ))                                                          | (18,929,119)                   | (22) | (13,842,335) | (23) | 37        |   |
| Total operating expenses                                                                                        | (45,153,569)                   | (52) | (35,931,793) | (59) | 26        |   |
| Net Income Before Tax from Continuing Operations                                                                | 39,458,463                     | 45   | 18,689,505   | 31   | 111       |   |
| Income tax (expenses) benefits (Note 6(AB))                                                                     | (5,189,984)                    | (6)  | 102,920      | -    | (5,143)   |   |
| Net Income                                                                                                      | 34,268,479                     | 39   | 18,792,425   | 31   | 82        |   |
| Other comprehensive income:                                                                                     |                                |      |              |      |           |   |
| Exchange differences of overseas subsidiaries' financial reports translation                                    | 459,782                        | 1    | (947,453)    | (2)  | 149       |   |
| Unrealized valuation losses on available-for-sale financial assets                                              | (472,287)                      | (1)  | (329,697)    | -    | (43)      |   |
| Actuarial (losses) gains on defined benefit plans                                                               | (320,726)                      | -    | 186          | -    | (172,533) |   |
| Proportionate share of other comprehensive gains (losses) from associates or joint ventures under equity method | 42,928                         | -    | (66,622)     | -    | 164       |   |
| Others                                                                                                          | 464,012                        | 1    | -            | -    | -         |   |
| Income tax related to components of other comprehensive income (Note 6(AB))                                     | 329,383                        | -    | 206,779      | -    | (59)      |   |
| Other comprehensive income (net amount after tax)                                                               | 503,092                        | 1    | (1,136,807)  | (2)  | 144       |   |
| Total Comprehensive Income                                                                                      | \$ 34,771,571                  | 40   | 17,655,618   | 29   | 97        |   |
| Net Income Attributable to:                                                                                     |                                |      |              |      |           |   |
| Parent company                                                                                                  | \$ 34,262,178                  | 39   | 18,784,906   | 31   | 82        |   |
| Non-controlling interest                                                                                        | 6,301                          | -    | 7,519        | -    | (16)      |   |
|                                                                                                                 | \$ 34,268,479                  | 39   | 18,792,425   | 31   | 82        |   |
| Comprehensive Income Attributable to :                                                                          |                                |      |              |      |           |   |
| Parent company                                                                                                  | \$ 34,761,854                  | 40   | 17,660,874   | 29   | 97        |   |
| Non-controlling interest                                                                                        | 9,717                          | -    | (5,256)      | -    | 285       |   |
|                                                                                                                 | \$ 34,771,571                  | 40   | 17,655,618   | 29   | 97        |   |
| Earnings per share (EPS) (unit : NT dollars) (Note 6(AG))                                                       | \$ 3.86                        |      | 2.22         |      |           |   |

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

## 6

Note: For the year ended December 31, 2014 and 2013, employee bonuses of \$4,973 and \$3,218 were deducted from the consolidated statements of comprehensive income.

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



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Year Ended December 31, 2014 And 2013**  
**(Expressed In Thousands of New Taiwan Dollars)**

|                                                                                                           | <b>For the year ended December 31</b> |                   |
|-----------------------------------------------------------------------------------------------------------|---------------------------------------|-------------------|
|                                                                                                           | <b>2014</b>                           | <b>2013</b>       |
| <b>Cash Flows from Operating Activities:</b>                                                              |                                       |                   |
| Net Income Before Tax                                                                                     | \$ 39,458,463                         | 18,689,505        |
| <b>Adjustments:</b>                                                                                       |                                       |                   |
| Income and expense items with no effect on cash flows                                                     |                                       |                   |
| Depreciation expenses                                                                                     | 1,337,778                             | 1,192,896         |
| Amortization expenses                                                                                     | 747,987                               | 601,119           |
| Provision for bad debt expenses                                                                           | 3,037,977                             | 6,178,819         |
| Net gains on financial assets or liabilities measured at fair value through profit or loss                | (5,438,385)                           | (503,386)         |
| Interest expenses                                                                                         | 20,568,427                            | 14,404,134        |
| Interest income                                                                                           | (58,828,254)                          | (42,710,280)      |
| Dividend income                                                                                           | (361,858)                             | (471,463)         |
| Net changes in guarantee reserve                                                                          | (5,645)                               | (7,141)           |
| Net changes in other provisions                                                                           | (57,543)                              | (70,006)          |
| Losses on disposal of foreclosed properties                                                               | 1,673                                 | 29,657            |
| Proportionate share of losses (gains) from subsidiaries, associates or joint ventures under equity method | 17,192                                | (74,635)          |
| Losses on disposal and retirement of premises and equipment                                               | 4,642                                 | 25,529            |
| Losses on disposal of intangible assets                                                                   | 73                                    | 2,598             |
| Gain on disposal of investments                                                                           | -                                     | (11,086)          |
| Gains on reversal of impairment loss on financial assets                                                  | (8,355)                               | -                 |
| Impairment loss on non- financial assets                                                                  | 36,923                                | 28,942            |
| Gain from a bargain purchase                                                                              | (14,814,154)                          | -                 |
| Other adjustments                                                                                         | (332,309)                             | 242,884           |
| Subtotal of income and expense items with no effect on cash flows                                         | (54,093,831)                          | (21,141,419)      |
| <b>Changes in Operating Assets and Liabilities:</b>                                                       |                                       |                   |
| <b>Net Changes in Operating Assets:</b>                                                                   |                                       |                   |
| Increase in due from Central Bank and call loans to bank                                                  | (36,892,592)                          | (14,277,054)      |
| Increase in financial assets measured at fair value through profit or loss                                | (1,051,661)                           | (701,238)         |
| (Increase) decrease in hedging derivative financial assets                                                | (589,373)                             | 667,841           |
| Increase in receivables                                                                                   | (6,918,424)                           | (28,121,769)      |
| Increase in loans                                                                                         | (98,953,306)                          | (153,295,427)     |
| (Increase) decrease in available-for-sale financial assets                                                | (62,248,544)                          | 12,563,189        |
| (Increase) decrease in held-to-maturity financial assets                                                  | (9,421,484)                           | 9,690,695         |
| (Increase) decrease in other financial assets                                                             | (124,984)                             | 965,724           |
| Net Changes in Operating Assets                                                                           | (216,200,368)                         | (172,508,039)     |
| <b>Net Changes in Operating Liabilities:</b>                                                              |                                       |                   |
| Increase in deposits from Central Bank and other banks                                                    | 924,870                               | 17,719,093        |
| Increase in financial liabilities measured at fair value through profit or loss                           | 29,996,199                            | 3,262,863         |
| Increase in hedging derivative financial liabilities                                                      | 661,210                               | 220,153           |
| Increase (decrease) in payables                                                                           | 6,991,541                             | (10,562,337)      |
| Increase in deposits and remittances                                                                      | 194,432,019                           | 206,053,677       |
| Decrease in other financial liabilities                                                                   | (14,455,939)                          | (7,156,394)       |
| Increase (decrease) in employee benefits provision                                                        | 219,992                               | (199,381)         |
| Net Changes in Operating Liabilities                                                                      | 218,769,892                           | 209,337,674       |
| Net Changes in Operating Assets and Liabilities                                                           | 2,569,524                             | 36,829,635        |
| Sum of Adjustments                                                                                        | (51,524,307)                          | 15,688,216        |
| Cash (Used in) Provided by Operating Activities                                                           | (12,065,844)                          | 34,377,721        |
| Interest received                                                                                         | 58,216,795                            | 42,761,444        |
| Dividend received                                                                                         | 413,337                               | 530,280           |
| Interest paid                                                                                             | (21,271,231)                          | (14,508,108)      |
| Income tax paid                                                                                           | (3,800,035)                           | (3,615,136)       |
| <b>Net Cash Provided by Operating Activities</b>                                                          | <b>21,493,022</b>                     | <b>59,546,201</b> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS(CONT'D)**  
**For the Year Ended December 31, 2014 And 2013**  
**(Expressed In Thousands of New Taiwan Dollars)**

|                                                                                                                | <b>For the year ended December 31</b> |                    |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------|--------------------|
|                                                                                                                | <b>2014</b>                           | <b>2013</b>        |
| <b>Cash Flows from Investing Activities:</b>                                                                   |                                       |                    |
| Purchase of financial assets carried at cost                                                                   | \$ (114,566)                          | (1,258)            |
| Disposal of financial assets carried at cost                                                                   | 345                                   | 94,177             |
| Return of capital from financial assets carried at cost                                                        | 92,095                                | 113,952            |
| Purchase of premises and equipment                                                                             | (8,290,814)                           | (6,950,382)        |
| Disposal of premises and equipment                                                                             | 48,344                                | 27,769             |
| Purchase of intangible assets                                                                                  | (1,488,636)                           | (290,105)          |
| Disposal of intangible assets                                                                                  | 716                                   | -                  |
| Disposal of foreclosed properties                                                                              | 7,071                                 | 344,624            |
| Cash inflows from business combination                                                                         | 48,203,353                            | -                  |
| Decrease in receivables                                                                                        | 514,655                               | 773,591            |
| (Increase) decrease in other assets                                                                            | (13,915,114)                          | 1,995,372          |
| <b>Net Cash Provided by (Used in) Investing Activities</b>                                                     | <b>25,057,449</b>                     | <b>(3,892,260)</b> |
| <b>Cash Flows from Financing Activities:</b>                                                                   |                                       |                    |
| (Decrease) increase in due to Central Bank and other banks                                                     | (2,612,407)                           | 2,375,429          |
| Issuance of financial debentures                                                                               | 35,000,000                            | 4,947,000          |
| Repayments of financial debentures                                                                             | (5,996,990)                           | (450,000)          |
| (Decrease) increase in securities sold under repurchase agreements                                             | (807,418)                             | 260,355            |
| Increase in financial liabilities at fair value through profit or loss, designated as upon initial recognition | 32,764,694                            | -                  |
| Increase (decrease) in payables                                                                                | 928,291                               | (90,321)           |
| Increase (decrease) in other liabilities                                                                       | 20,553,986                            | (1,597,099)        |
| Cash dividends issuance                                                                                        | -                                     | (11,304,952)       |
| Cash capital increase                                                                                          | 15,000,000                            | -                  |
| <b>Net Cash Provided by (Used in) Financing Activities</b>                                                     | <b>94,830,156</b>                     | <b>(5,859,588)</b> |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                                            | <b>(1,733,212)</b>                    | <b>(991,703)</b>   |
| <b>Net Increase in Cash and Cash Equivalents</b>                                                               | <b>139,647,415</b>                    | <b>48,802,650</b>  |
| <b>Cash and Cash Equivalents, at the Beginning of the Period</b>                                               | <b>160,342,852</b>                    | <b>111,540,202</b> |
| <b>Cash and Cash Equivalents, at the End of the Period</b>                                                     | <b>\$ 299,990,267</b>                 | <b>160,342,852</b> |
| <b>Components of cash and cash equivalents:</b>                                                                |                                       |                    |
| Cash and cash equivalents recognized in the balance sheet                                                      | \$ 109,030,099                        | 84,431,256         |
| Due from Central Bank and call loans to bank which meet IAS 7 definition of cash and cash equivalents          | 188,185,775                           | 75,911,596         |
| Securities sold under resell agreements which meet IAS 7 definition of cash and cash equivalents               | 2,774,393                             | -                  |
| <b>Cash and Cash Equivalents, at the End of the Period</b>                                                     | <b>\$ 299,990,267</b>                 | <b>160,342,852</b> |

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

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL REPORTS**  
**December 31, 2014 and 2013**  
**(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)**

**1. BASIS OF PRESENTATION**

CTBC Bank Co., Ltd. (the “Bank”) was incorporated in March 1966 originally as “China Securities Investment Corporation.” In December 1970, the Bank changed its organization and was renamed China Trust Co., Ltd. Twenty-one years later, on July 2, 1992, it was approved to conduct commercial banking business and changed its name to CTBC Bank Co., Ltd.

In order to restructure overall resources, lower costs, expand the business scope, enhance competitiveness, and improve the quality of financial services and operating efficiency, on September 30, 2003, the Bank’s board of directors resolved to acquire Grand Commercial Bank, a wholly owned subsidiary of CTBC Financial Holding Co., Ltd., and to merge with it, with the Bank as the surviving entity. The acquisition date of record was December 1, 2003.

On August 1, 1991, Grand Commercial Bank was approved to conduct commercial banking business, and it began operations on December 30, 1991. As of November 30, 2003, Grand Commercial Bank had a business department, a trust department, a domestic banking unit, an offshore banking unit, and 42 domestic branches.

In order to develop the business units, enhance competitiveness, and provide customers with more convenient and varied financial services, the Bank assumed the outstanding assets, liabilities and operations of Fengshan Credit Cooperative (“FSCC”) and Enterprise Bank of Hualien (“EBH”) on October 1, 2004, and September 8, 2007, respectively.

In order to enhance the effectiveness of the overall operation of CTBC Financial Holding Company and to reduce operational risk and cost, the Bank merged with Chinatrust Bills Finance Corp., a wholly owned subsidiary of CTBC Financial Holding Co., Ltd., by issuing common shares in a 0.77-for-1 exchange for the shares of Chinatrust Bills Finance Corp. on April 26, 2008. The Bank is the surviving entity from this merger.

The Bank has been approved to conduct business in the following areas:

- (A) Checking accounts, savings accounts, and time deposits;
- (B) Short-, medium-, and long-term loans;
- (C) Note discounting;
- (D) Investment in marketable securities;
- (E) Domestic foreign exchange business;
- (F) Banker’s acceptances;
- (G) Issuance of domestic standby letters of credit;

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (H) Domestic endorsement guarantees business;
- (I) Collection and payment agency;
- (J) Agency for government bonds, treasury bills, corporate bonds, and securities transactions;
- (K) Agency transactions and proprietary trading of short-term bills;
- (L) Credit card-related products;
- (M) Agency for sale of gold nuggets, gold coins, and silver coins;
- (N) Financial derivative businesses as approved by the Financial Supervisory Commission;
- (O) Custody and warehouse services;
- (P) Renting of safe-deposit boxes;
- (Q) Financial advisory services on corporate banking;
- (R) Foreign exchange business in connection with exports and imports, fund remittance and repatriation, foreign currency deposits and loans; guarantee for secured repayment, and attestation on exports and imports;
- (S) Non-discretionary trust funds for investment in foreign and domestic marketable securities;
- (T) Account receivable factoring business as approved by the Financial Supervisory Commission;
- (U) Endorsement and issuance of corporate bonds;
- (V) Issuance of financial debentures;
- (W) Underwriting, agency transactions, and proprietary trading of marketable securities;
- (X) Proprietary trading of government bonds;
- (Y) All businesses related thereto as specified in the license or other agency services as approved by the Financial Supervisory Commission;
- (Z) Trust and fiduciary services;
- (AA) Margins on foreign currency transactions;
- (AB) Issuance of cash value cards;
- (AC) Public welfare lottery sales;
- (AD) Futures proprietary trading business; and

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AE) Other businesses as approved by the Financial Supervisory Commission.

The Bank's headquarters coordinate corporate-wide operations and establishes domestic and overseas banking units to expand business. As of December 31, 2014, the Bank had 147 domestic branches, 9 foreign branches and 4 overseas representative offices, whereas its subsidiaries had 87 overseas offices.

The Bank's parent company and ultimate parent company is CTBC Financial Holding Co., Ltd.

## **2. APPROVAL DATE AND PROCEDURES OF THE FINANCIAL REPORTS**

The consolidated financial reports were approved to the board of directors on March 31, 2015.

## **3. NEW STANDARDS AND INTERPRETATIONS**

(A) The effect on non-application of 2013 International Financial Reporting Standards as accepted by Financial Supervisory Commission

In accordance to Chin-Kuan-Chen-Shen-Zi No.1030010325 which was issued by Financial Supervisory Commission (the "FSC") on April 3, 2014, listed companies at stock exchange market, over-the-counter market and emerging stock market should adopt the 2013 version of IFRSs, which are accepted by FSC, from the year 2015 when compiling financial reports. The announcement excludes the application of IFRS 9 "Financial Instruments." The newly issued and revised accounting standards and interpretations are as follows.

| <u>Newly issued/ revised accounting standards and interpretations</u>                                            | <u>Effective date per IASB</u>                                                     |
|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| Amendment to IFRS 1- Amended by "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters." | July 1, 2010                                                                       |
| Amendment to IFRS 1- Amended by "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters."      | July 1, 2011                                                                       |
| Amendment to IFRS 1- Amended by "Government Loans."                                                              | January 1, 2013                                                                    |
| Amendment to IFRS 7- Amended by "Disclosures – Transfers of Financial Assets."                                   | July 1, 2011                                                                       |
| Amendment to IFRS 7- Amended by "Disclosures — Offsetting Financial Assets and Financial Liabilities."           | January 1, 2013                                                                    |
| IFRS 10 "Consolidated Financial Statements."                                                                     | January 1, 2013<br>(Become effective for investment entities from January 1, 2014) |
| IFRS 11 "Joint Arrangements."                                                                                    | January 1, 2013                                                                    |
| IFRS 12 "Disclosure of Interests in Other Entities."                                                             | January 1, 2013                                                                    |
| IFRS 13 "Fair Value Measurement."                                                                                | January 1, 2013                                                                    |
| Amendment to IAS 1- Amended by "Presentation of Items of Other Comprehensive Income."                            | July 1, 2012                                                                       |
| Amendment to IAS 12- Amended by "Deferred Tax: Recovery of Underlying Assets."                                   | January 1, 2012                                                                    |
| Amendment to IAS 19- Superseded by "Employee Benefits."                                                          | January 1, 2013                                                                    |
| Amendment to IAS 27- Reissued as "Separate Financial Statements."                                                | January 1, 2013                                                                    |
| Amendment to IAS 32- Amended by "Offsetting Financial Assets and Financial Liabilities."                         | January 1, 2014                                                                    |
| IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine."                                            | January 1, 2013                                                                    |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Except for the following listed items, the adoption of the 2013 version of IFRSs by the Bank and its subsidiaries would have no significant impact on consolidated financial reports.

(a) IAS 1 “Presentation of Financial Statements”

The amendments change the presentation of other comprehensive income. They require the grouping of items of other comprehensive income into “items that might be reclassified to profit or loss in subsequent periods” and “items that will not be reclassified to profit or loss in subsequent periods.” Furthermore, all lines under other comprehensive income shall be presented in pre-tax amount. The related tax effects shall be disclosed separately based on the aforesaid grouping method. The Bank and its subsidiaries will change the presentation of other comprehensive income in conformity with the amendments.

(b) IFRS 12 “Disclosure of Interests in Other Entities”

The standard integrates and requires a wide range of disclosures about an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated ‘structured entities.’ The Bank and its subsidiaries will increase the disclosure of consolidated and non- consolidated entities in conformity with the standard.

(c) IFRS 13 “Fair Value Measurement”

The standard defines fair value, provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. However, after the assessment, the application of the standard will have no significant impact on the Bank and its subsidiaries’ financial position and financial performance. In addition, the Bank and its subsidiaries will increase the disclosures regarding fair value measurement in conformity with the standard.

(d) IFRS 7 “Disclosures — Offsetting Financial Assets and Financial Liabilities” and IAS 32 “Offsetting Financial Assets and Financial Liabilities”

The standard specifies the related rules regarding “the entity has a legally enforceable right to set off the amount” and “the entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously” and requires the disclosure regarding the possible effect on an entity’s financial position due to the net basis settlement. After assessment, the standard poses no significant impact on the Bank and its subsidiaries’ financial position, and the Bank and its subsidiaries will increase the disclosures regarding net basis settlement in conformity with the standard.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (B) The effect on newly issued International Financial Reporting Standards not yet accepted by the FSC

Listed as below are the accounting standards and interpretations newly issued and revised by IASB but not yet included in the 2013 IFRSs as accepted by the FSC.

| <u>Newly issued/ revised accounting standards and interpretations</u>                                                                  | <u>Effective date per IASB</u> |
|----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| IFRS 9 “Financial Instruments.”                                                                                                        | January 1,2018                 |
| Amendments to IFRS 10 and IAS 28 -Amended by “Sale or contribution of assets between an investor and its associate or joint venture. ” | January 1,2016                 |
| Amendments to IFRS 10, IFRS 12 and IAS 28- Amended by “Investment Entities: Applying the Consolidation Exception.”                     | January 1,2016                 |
| Amendments to IFRS 11- Amended by “Accounting for Acquisitions of Interests in Joint Operations.”                                      | January 1,2016                 |
| IFRS 14 “Regulatory Deferral Accounts.”                                                                                                | January 1,2016                 |
| IFRS 15 “Revenue from Contracts with Customers.”                                                                                       | January 1,2017                 |
| Amendments to IAS 1- Amended by “Disclosure Initiative.”                                                                               | January 1,2016                 |
| Amendments to IAS 16 and IAS 38- Amended by “Clarification of Acceptable Methods of Depreciation and Amortisation.”                    | January 1,2016                 |
| Amendment to IAS 19- Amended by “Defined Benefit Plans: Employee Contributions.”                                                       | July 1,2014                    |
| Amendment to IAS 27- Amended by “Equity method in separate financial statements. ”                                                     | January 1,2016                 |
| Amendment to IAS 36- Amended by “Recoverable Amount Disclosures for Non-Financial Assets.”                                             | January 1,2014                 |
| Amendment to IAS 39- Amended by “Novation of Derivatives and Continuation of Hedge Accounting.”                                        | January 1,2014                 |

The impact of applying new standards on financial position and financial performance of the Bank and its subsidiaries is under evaluation. Once the evaluation is completed, the Bank and its subsidiaries will disclose the effect on the financial reports.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This report was originally prepared in Chinese language. When conflicts or ambiguities arise in interpretations between the two versions, the Chinese version shall prevail.

- (A) Assertion of compliance

The consolidated financial reports were 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 Firms, the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, IFRSs, IAS, interpretations and pronouncements as accepted by FSC (“IFRSs as accepted by FSC”).

- (B) Basis of compilation

The consolidated financial reports have been prepared on a historical cost basis except for the following material items in the statement of financial position:

- (a) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (b) Available-for-sale financial assets measured at fair value;
  - (c) Hedging derivative financial instruments measured at fair value;
  - (d) Cash-settled share-based payment agreements liability measured at fair value; and
  - (e) Defined benefit assets, which are recognized as the net amount of pension plan assets plus unrecognized prior service cost and unrecognized actuarial losses, minus unrecognized actuarial gains and present value of defined benefit obligation.
- (C) Basis of consolidation
- (a) Basis of compilation for consolidated financial reports

The consolidated financial reports encompass the Bank itself and controlled entities. All significant intra-group transactions are written-off.

- (b) Subsidiaries and special purpose entites are included in the consolidated financial reports

| Name of Investor Company  | Name of Subsidiary                              | Primary Business                                               | Percentage of Ownership |                   |
|---------------------------|-------------------------------------------------|----------------------------------------------------------------|-------------------------|-------------------|
|                           |                                                 |                                                                | December 31, 2014       | December 31, 2013 |
| CTBC Bank Co., Ltd.       | CTBC Bank (Philippines) Corp.                   | Primarily engages in commercial banking and financing business | 99.60%                  | 99.60%            |
| "                         | PT Bank CTBC Indonesia                          | Primarily engages in commercial banking and financing business | 99.00%                  | 99.00%            |
| "                         | CTBC Bank Corp.(Canada)                         | Primarily engages in commercial banking and financing business | 100.00%                 | 100.00%           |
| "                         | The Tokyo Star Bank, Ltd. (Note 1)              | Primarily engages in commercial banking and financing business | 100.00%                 | - %               |
| "                         | CTBC Capital Corp.                              | Investment business                                            | 100.00%                 | 100.00%           |
| CTBC Capital Corp.        | CTBC Bank Corp. (USA)                           | Primarily engages in commercial banking and financing business | 100.00%                 | 100.00%           |
| The Tokyo Star Bank, Ltd. | TSB Capital, Ltd                                | Financing and assurance business                               | 100.00%                 | 100.00%           |
| "                         | TSB Servicer, Ltd                               | Debt management business                                       | 100.00%                 | 100.00%           |
| "                         | Tokyo Star Business Finance, Ltd                | Financing business                                             | 100.00%                 | 100.00%           |
| "                         | Residential Mortgage Backed Securities (Note 2) | Asset-backed security that is secured by mortgage              | - %                     | - %               |
| "                         | Pecuniary Trust Contract (Note 2)               | Mortgage management / Collection NPL                           | - %                     | - %               |
| "                         | Credit Linked Notes (Note2)                     | Note 3                                                         | - %                     | - %               |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

| Name of Investor Company  | Name of Subsidiary             | Primary Business         | Percentage of Ownership |                   |
|---------------------------|--------------------------------|--------------------------|-------------------------|-------------------|
|                           |                                |                          | December 31, 2014       | December 31, 2013 |
| The Tokyo Star Bank, Ltd. | Asset-back Securities (Note 2) | Consumer loan management | - %                     | - %               |

Note 1 : In order to expand the service to Northeast Asia, the Bank has acquired 100% equity stake of The Tokyo Star Bank, Ltd. on June 5, 2014.

Note 2 : The investment fulfills the definition of special purpose entities specified in interpretation pronouncement No.12 issued by Standing Interpretations Committee.

Note 3 : A security with an embedded credit default swap.

- (c) Below are investees excluded in the consolidated financial reports while the Bank has de facto control or over 50% holdings:

| Name of Investor Company | Name of Subsidiary                      | Primary Business                        | Percentage of Ownership |                   | Description                                                                                               |
|--------------------------|-----------------------------------------|-----------------------------------------|-------------------------|-------------------|-----------------------------------------------------------------------------------------------------------|
|                          |                                         |                                         | December 31, 2014       | December 31, 2013 |                                                                                                           |
| CTBC Bank Co., Ltd.      | GCB Finance (HK) Limited                | Corporate loans and investment business | 100.00%                 | 100.00%           | The entity is in the process of liquidation and its total assets and operating revenue are insignificant. |
| (Note)                   | Hu- Yi Solution Corp. (Shanghai) (Note) | Information service                     | - %                     | - %               | The entity has been liquidated in March, 2015.                                                            |

Note: Even though the Bank has no direct investment in the entity, the entity fulfills the definition of special purpose entities specified in interpretation pronouncement No.12 issued by Standing Interpretations Committee.

**(D) Foreign currency**

- (a) A foreign currency transaction that is denominated or requires settlement in a foreign currency, shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
- (b) At each balance sheet date, foreign currency monetary items shall be translated using the closing rate. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.
- (c) Foreign currency differences arising on the settlement of a foreign currency transaction are recognized in current profit or loss. Foreign currency differences arising on the retranslation of monetary item, except for differences arising on the retranslation of monetary item designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge are recognized directly in other comprehensive income, are recognized in profit or loss when it incurred.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (d) When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange difference of that gain or loss shall be recognized in other comprehensive income. Otherwise, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange difference of that gain or loss shall be recognized in profit or loss.

- (e) Functional currency and presentation currency

The functional currency of the Bank and its subsidiaries is the currency of the primary economic environment in which they operate. The financial reports are presented in New Taiwan Dollar, the functional currency of the Bank.

- (E) Cash and cash equivalents

The statements of cash flows are compiled based upon cash and cash equivalents. Cash comprises cash on hand, savings accounts, checking accounts, and unrestricted time deposits or negotiable certificates of deposit which may be terminated anytime without impairing the principal. Cash equivalents consist of short-term and highly liquid investments that are readily convertible to known amounts of cash and will mature within a short period so that interest rate fluctuations have little effect on their values. Cash equivalents include short-term bills with maturities within three months from the investment date.

Cash and cash equivalents comprise time deposits that are used by the Bank and its subsidiaries in the management of its short-term cash commitments and are not for investment or other purposes. Additionally, the aforementioned deposits are readily convertible to fixed amount of cash and are subject to an insignificant risk of changes in their fair value.

- (F) Financial instruments

- (a) Financial assets

Financial assets held by the Bank and its subsidiaries are recorded on the trading date. Except for financial instruments classified as held for trading, other financial instruments are initially recognized at acquiring or issuing cost plus transaction costs. Upon disposition, the cost of sale of equity securities is determined by the moving-average method, and the cost of sale of debt securities is determined by the first-in, first-out (FIFO) method.

- 1. Financial assets measured at fair value through profit or loss

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. The derivative financial instruments held by the Bank and its subsidiaries, except for those designated as hedging instruments, are classified under these accounts. The Bank and its subsidiaries designate financial assets, other than ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

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- A. Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- B. Performance of the financial assets is evaluated on a fair value basis;
- C. A Hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at balance sheet date. Changes in fair value are recognized in profit or loss as incurred.

2. Available-for-sale financial assets — net

At each balance sheet date, the fair value is remeasured, and the resulting gain or loss from such remeasurement is recognized directly in other comprehensive income. Interest on a debt instrument classified as available-for-sale is accrued; the relevant premium/discount is amortized by using the effective-interest-rate method. If there is objective evidence that an available-for-sale financial asset is impaired, the carrying amount of the asset is reduced, and impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss of the available-for-sale equity securities decreases, the impairment loss recognized in profit or loss shall not be reversed through profit or loss. If, in a subsequent period, the amount of the impairment loss of the available-for-sale debt securities decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized. A gain or loss on available-for-sale financial assets is recognized directly in other comprehensive income, except for impairment losses and foreign exchange gains or losses arising from monetary financial assets, until the financial assets are derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income is charged to profit or loss.

3. Securities under repurchase/reverse repurchase agreements

Securities sold/purchased with a commitment to repurchase/reverse repurchase at predetermined price are treated as financing transactions. The difference between the cost and the repurchase/reverse repurchase price is treated as interest expenses/revenue and recognized over the term of the agreement. On the selling/purchasing date, these agreements are recognized as securities sold under repurchase agreements or securities purchased under reverse repurchase agreements.

4. Loans and receivables

At initial recognition, loans and receivables include incremental direct transaction costs, and the subsequent measurement recognizes interest revenues through the effective interest method on accrual basis, under which the loans and receivables are carried at amortized cost less impairment losses. Loans are reclassified as a non-accrual account if either of the following conditions is met, and interest collected while accruing of interest has been suspended is included in earnings only to the extent of cash actually received.

- A. Collection of payment of principal or interest accrued is considered highly unlikely; or

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- B. Payment of principal or interest accrued is over 3 or 6 months past due; or
- C. Payment of principal, interest accrued and other suspense account of credit card is over 90 days past due.

As the purpose of holding those creditor's rights has changed, these loans held for sale are accounted for under "other financial assets" and will be valued using the lower-of-cost-or-market method in the future.

With regards to loans and receivables, the objective evidence shall be identified first to reveal any impairment existing for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, it shall be included in a set of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment are not required to be collectively assessed because impairment is or continues to be recognized.

Nonaccrual accounts deemed uncollectible are written off upon approval of the board of directors. The recovery of written-off loans and accounts receivable is accounted for under the reversal of the allowance for credit losses.

Reserves for guarantees are appropriately provided based on an estimate of probable losses inherent in the ending balances of guarantees, acceptances receivable, and commercial paper.

Another estimate will also be reached following Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans issued by the FSC and other related regulations. Final provision will be based on the higher of the two estimates.

5. Held-to-maturity financial assets — net

The amortized cost and interest income of held-to-maturity financial assets are determined by using the effective-interest-rate method. If there is objective evidence that a held-to-maturity financial asset is impaired, the carrying amount of the asset is reduced, and impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.



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6. Financial assets carried at cost

Equity instruments with no quoted market price are initially recognized at whose fair value plus transaction costs. At each balance sheet date, fair value can be reliably measured if either of the following conditions is met:

- A. the variability in the range of reasonable fair value estimates is not significant for that instrument; or
- B. the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, it is not permissible to measure the instrument at fair value; instead, the instrument shall be carried at cost.

7. Debt investments without active markets

The amortized cost and interest income of debt investments without an active market are determined by using the effective-interest rate method. When there is objective evidence that an impairment loss on financial assets has been incurred, impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.

8. Financial assets initially classified as measured at fair value through profit or loss (other than derivative financial assets and those designated as assets measured at fair value through profit or loss) may be reclassified into other categories if those financial assets are no longer held for the purpose of selling and meet the criteria listed below; financial assets initially classified as available-for-sale that would have met the definition of loans and receivables may be reclassified out of the available-for-sale category to the loans and receivables. The accounting treatments on the date of reclassification are summarized as follows:

- A. When financial assets initially classified as measured at fair value through profit or loss have met the definition of loans and receivables and the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity, they shall be reclassified at their value on the date of reclassification, which will become their new cost or amortized cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.
- B. Financial assets initially classified as measured at fair value through profit or loss which do not meet the preceding criterion may be reclassified out of the fair value through profit or loss category only in rare circumstances and shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.

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- C. When financial assets initially classified as available-for-sale have met the definition of loans and receivables and the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity, they shall be reclassified at their value on the date of reclassification, which will become their new cost or amortized cost, as applicable.
- D. For any previous gain or loss on a financial asset that has been recognized directly under owners' equity, if the financial asset has a fixed maturity, the gain or loss shall be amortized to current profit or loss over the remaining life of the financial asset; if not, the gain or loss remains under owners' equity.

9. Financial asset impairment

If there is an objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate; the amount of the loss shall be recognized in profit or loss in the current period. The estimation of future cash flows includes the recoverable amount of collateral and related insurance when determining the amount of the loss.

The aforesaid objective evidence includes:

- A. Significant financial difficulty of the issuer or obligor;
- B. A breach of contract, such as a default or delinquency in interest or principal payments;
- C. The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- D. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- E. The disappearance of an active market for that financial asset because of the issuer's financial difficulties;
- F. Adverse changes in the payment status of the borrower; and
- G. Changes in national or local economic conditions that correlate with defaults on the assets.

10. Derecognition of financial assets

The Bank or its subsidiaries shall derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire or when the Bank or its subsidiaries transfer substantially all the risks and rewards of ownership of the financial assets.

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Securities lending agreement or repurchase transactions, where bonds or stocks are taken as collateral, shall not be derecognized, because the Bank or its subsidiaries have retained substantially all the risks and rewards of ownership. The transaction of asset backed securitization is applying to such situation when the Bank or its subsidiaries still retained partial risks.

**(b) Financial liabilities**

The financial liability held by the Bank or its subsidiaries includes a financial liability measured at fair value through profit or loss (including the instruments designated as at fair value through profit or loss), amortized cost of a financial liability and hedge derivatives.

**1. Financial liabilities measured at fair value through profit or loss**

A financial liability is held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; 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. A derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, is classified as instrument held for trading as well. Financial liabilities held for trading include obligations to deliver financial assets borrowed by a short seller. The Bank and its subsidiaries designate financial liabilities, as at fair value through profit or loss at initial recognition under one of the following situations:

- A. Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- B. Performance of the financial liability is evaluated on a fair value basis;
- C. A hybrid instrument contains one or more embedded derivatives.

Financial liabilities falling under this category are measured at fair value in the balance sheet at the balance sheet date. Moreover, the changes in fair value are recognized as current profit or loss.

Under certain circumstances, the Bank and its subsidiaries may not recognize profit or loss of a financial asset or financial liability at initial recognition, if a fair value is not derived from a quoted market price in an active market and is based on the evaluation method with data retrieved from unobservable market. In the above scenario, the recognition of the difference between fair value at initial recognition and transaction price is deferred. After initial recognition, the entity shall recognize the aforesaid deferred difference as a gain or loss only to the extent that it arises from a change in a factor that market participants would take into account when pricing the asset or liability.

**2. Amortized cost of a financial liability**

Financial liabilities are classified at amortized cost of a financial liability, except for financial liabilities measured at fair value through profit or loss, hedged derivatives financial liability, financial bonds payable, financial guarantee contracts,

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commitments to provide a loan at a below-market interest rate and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

3. Derecognition of a financial liability

The Bank and its subsidiaries shall remove a financial liability from its statement of financial position when, and only when, it is extinguished.

(c) Derivatives and hedging accounting

Derivative instruments are initially recognized at fair value on contract date and subsequently measured at fair value. Fair value includes quoted price in an active market, occurring market transaction prices or model valuation technique. All derivatives instruments are recognized as assets with positive fair value and as liability with negative fair value.

The Bank and its subsidiaries should accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and the entire hybrid contract is not designated as at fair value through profit or loss. In addition, the embedded derivative is recognized as financial asset or liability as measured at fair value through profit or loss.

When a fair value hedge, cash flow hedge, and hedge of a net investment in a foreign operation are in conformity with all the conditions for applying hedge accounting, the affected profit or loss is recognized by offsetting the changes in the fair value of hedging instruments and hedged items. The related accounting treatments are as follows:

1. Fair value hedge: Changes in the fair value of derivatives that are designated and qualified as fair value hedging instruments against the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment are recognized through profit or loss in the current period.
2. Cash flow hedge: Where a derivative financial instrument is designated as a hedge of the variability in cash flow of a recognized asset or liability or a highly probable forecast transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognized directly under other comprehensive income. When the hedged transaction actually affects the profit or loss, the gain or loss previously recognized under other comprehensive income shall be recognized through current profit or loss. Any gain or loss from the change in fair value relating to an ineffective portion of the hedge transaction is recognized immediately through profit or loss in the current period.
3. Hedge of a net investment in a foreign operation: The effective portion of any gain or loss on a hedging instrument relating to a hedge against foreign currency fluctuation in a foreign operation is recognized directly in other comprehensive

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income until the disposal of the foreign operation, at which time the cumulative gain or loss recognized directly under other comprehensive income is recognized in profit or loss in the current period.

(d) Financial guarantee contracts

The Bank and its subsidiaries recognize financial guarantee liabilities initially at their fair value at the date of providing guarantee. The Bank and its subsidiaries receive commission income with non-arm's-length transaction at contract date; this is, the income could represent the fair value of financial guarantee contract. The advanced service fee is recognized as deferred item and amortized by straight-line method over the life of the financial guarantee.

Financial guarantee contracts shall be subsequently measured by the Bank and its subsidiaries at the higher of:

1. The amount determined in accordance with "Provisions"; and
2. The amount initially recognized less, when appropriate, cumulative amortization recognized from deferred revenues.

(G) Non-financial asset impairment

At each balance sheet date, the recoverable amount of an asset is estimated and compared with the carrying amount whenever there is an indication that the non-financial asset may be impaired. An impairment loss is recognized when the recoverable amount, higher of fair market value or value in use, is less than the carrying amount. For assets other than goodwill, reversal of impairment loss is recognized when the recoverable amount of the asset has increased from its prior-period estimation. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(H) Assets held for sale

For an asset or disposal group to be classified as held for sale, it needs to be disposed of through sale rather than through continuing use to recover its carrying amount. Assets or disposal groups that meet the criteria to be classified as such must be subject only to terms that are usual and customary and be available for immediate sale, which is highly probable, within one year of such classification. After being classified as held for sale, it is measured at the lower of carrying amount and fair value less costs to sell.

Amortization or depreciation on intangible assets, premises and equipment ceases once they are classified as held for sale.

(I) Investments in associates

Investments in associates in which the Bank is able to exercise significant influence and subsidiaries the Bank has control over, are accounted for under the equity method and initially recognized at cost. Goodwill, deducting accumulated impairment loss, relating to an associate is included in the carrying amount of the investment. The equity method discontinues to be used from the date when it ceases to have significant influence, and the

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book value is taken as the new cost of the investment.

The Bank has significant influence if holding, directly or indirectly 20% or more of the voting right of the investee, and has control over the investees if holding, directly or indirectly 50% or more of the voting right of the investee, unless it can be clearly demonstrated that this is not the case.

After the date of acquisition the Bank or its subsidiaries' share of the profit or loss of the associates is recognized in profit or loss. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount of the investment may also be necessary for changes in the Bank or its subsidiaries' proportionate interest in the associates arising from changes in the associates' other comprehensive income. If the Bank or its subsidiaries' share of losses of an associate equals or exceeds their interest in the associate (including non-guarantee long-term receivables), the Bank or its subsidiaries discontinues recognizing its share of further losses. Additional losses are provided for, and a liability is recognized, only to the extent that the Bank or its subsidiaries has incurred legal or constructive obligations or made payments on behalf of the associate.

Changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the parent's ownership interest and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity.

(J) Cash surrender value of life insurance

The Bank's U.S. subsidiary purchased single-premium life insurance under which the executive officers and directors are the insured, while the subsidiary is the owner and beneficiary thereof. The cash surrender value indicates the amount that would be received if the life insurance is terminated prior to the maturity date, and is accounted for under "other assets."

(K) Premises and equipment

The Bank and its subsidiaries' property and equipment are recognized after deducting any accumulated depreciation and accumulated impairment losses from historical cost. The historical cost includes any costs directly attributable to acquiring the assets.

Subsequent expenditure of property and equipment shall be recognized as an asset or be included in the carrying amount of assets, when, and only when it is probable that the future economic benefits that are associated with property and equipment will flow to the Bank or its subsidiaries, and the cost of property and equipment can be measured reliably. The carrying amount of those parts that are replaced is derecognized. A major improvement or repair expense that can extend the benefits over afterward period is regards as capital expenditure; while frequent maintenance or repairs are charged to current expenses.

If the Bank and its subsidiaries have obligations to dismantle, remove and restore the property and equipment, the obligation for which the Bank and its subsidiaries incurs either when the item is acquired or as a consequence of having used the item during a particular



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period shall be recognized as the cost of the property and equipment as well as liability.

Depreciation is computed using the straight-line method; the useful lives are calculated based on the normal economic lives. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The residual value and the useful life of an asset shall be reviewed or adequately adjusted at each financial year-end. Useful lives of major premises and equipment are as follows:

|                          |            |
|--------------------------|------------|
| Buildings and premises   | 4~56 years |
| Transportation equipment | 4~ 6 years |
| Miscellaneous equipment  | 2~20 years |

The gain or loss arising from the disposition of an item of property and equipment shall be recognized in current profit or loss and determined as the difference between the disposal proceeds and the carrying amount of the item.

(L) Intangible assets

(a) Computer software

Computer software system expenses, which are recorded on the basis of the actual cost of acquisition, are amortized using a straight-line method over a period of 3 to 15 years. Its amortization method, useful life and residual value are referred to the regulation of properties and equipment. The Bank and its subsidiaries use cost model to proceed subsequently measurement.

(b) Goodwill

The Bank and its subsidiaries account a business combination by applying the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities assumed by the acquirer and the equity interests issued by the acquirer. In addition, other expense directly contributed to the acquisition is included. The acquirer shall measure the identifiable assets acquired from business combination and the liabilities or contingent liabilities assumed at their acquisition-date fair values without considering non-controlling interest. The acquirer shall recognize goodwill as of the acquisition date measured as the excess of the consideration transferred over the fair value of net identifiable assets held according to holding proportion. Adversely, the difference may result in directly recognizing a gain on a purchase.

Goodwill relating to cash-generating units is tested for impairment periodically each year. An impairment loss is recognized when the recoverable amount is less than the carrying amount. Impairment losses cannot be reversed once an impairment loss has been recognized.

(M) Foreclosed properties

Foreclosed properties received are stated at acquired cost, and the difference between it and the nominal value of the original claim is reflected as a credit loss. On the balance sheet date,

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if the foreclosed properties received are still unsold, they shall be evaluated at the lower of carrying amount and net fair market value. If there is sufficient evidence indicating that the net fair market value is lower than the carrying amount of foreclosed properties, the difference after reassessment is accounted for under impairment loss on assets. Gain or loss on disposal of foreclosed properties is recognized in current profit or loss as well.

**(N) Provisions**

The Bank and its subsidiaries recognize provisions only if all of the following conditions are met:

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

The Bank and its subsidiaries shall not recognize provisions for future operating losses.

Where there are a number of similar obligations the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognized.

The amount of a provision is measured subsequently as the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The deficiency is recognized as profit or loss of the current period.

**(O) Revenue recognition**

The Bank and its subsidiaries' income is recognized on an accrual basis. Please refer to Note 4(F)(a)4. loans and receivables for more information on interest income from receivables and loans.

**(P) Employee benefit**

- (a) Short-term employee benefit: the Bank or its subsidiaries charges the short-term and non-discounted benefit expectedly paid in near future to current expenses over the periods services are rendered by employees.
- (b) Post-employment benefit: The Bank and its subsidiaries' pension plan comprises defined contribution plan and defined benefit plan.

- 1. A defined contribution plan is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense

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in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

2. A defined benefit plan is a post-employment benefit plan under which benefit is paid to an employee on the basis of their ages, service periods and compensated salaries at the date of retirement. The Bank recognizes actuarial gains and losses which are incurred by the change of actual experience and actuarial assumption in other comprehensive income, and recognize pension asset or liability in balance sheet in which asset or liability is the amount of actuarial present value of defined benefit obligation deducting fair value of plan assets. The calculation of defined benefit obligation is performed annually by an actuary using the projected unit credit method. The actuarial present value of defined benefit obligation is calculated by discounting future cash flow at the yield rate on AA credit rated bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. In accordance with the article 28 of the Regulations Governing the Preparation of Financial Reports by Public Bank's, when the interest incurred from retiree deposits with favorable rates 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. Otherwise, the parameter of actuarial assumption of competent authority should be followed (if have). The interim amount of define benefit plan is determined based on the pension cost rate, which is the actuarial rate at the end of last fiscal year, and the amount, which is from the beginning of the year to the end of current period. In addition, an adjustment would be made if significant market fluctuation, significant decrease, pay-off or other significant one-time event occurs after the end of period.
  3. The defined contribution plan of overseas unit is in accordance with respective authorities' regulation.
- (c) Termination benefits: Termination benefits are incurred when the Bank or its subsidiaries terminate employment prior to qualifying for retirement, or the employees accepted voluntary redundancy to get termination benefits in return. Termination benefits are recognized as a liability when the Bank and its subsidiaries are committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to provide termination benefits or make an offer of termination benefits to encourage voluntary redundancy. Termination benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

**(Q) Share based payment transactions**

The Bank's accounting treatments of share-based payment are as below.

- (a) Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, and the corresponding increase in owners' equity is recognized. The vesting period is estimated based on the ultimate vesting conditions

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that must be satisfied. The vesting conditions include service conditions and performance conditions, including market conditions. In valuing equity-settled payments, no account is taken of any vesting conditions other than market conditions.

- (b) For cash-settled share-based payment transactions, a liability equal to the portion of the goods or services received is recognized at its current fair value determined at each balance sheet date and at the date of settlement, with any changes in the fair value recognized in profit or loss of the period.
- (c) Fair value of the share options at the grant date is measured with the use of an option pricing model based on management's best estimate of the exercise price, expected term, underlying share price, expected volatility, expected dividend yield, risk-free interest rate, and any other inputs to the model.

**(R) Employee bonuses and directors' and supervisors' remunerations**

The Bank's employees' bonuses, along with directors' (including independent directors) compensations are recognized as personnel expenses. Any difference lies between the amount approved by the Bank's board of directors representing its shareholders and previously recognized in the financial report is considered as change in accounting estimates which is then recognized as profit or loss of the current period.

**(S) Income taxes**

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss. Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years. Income tax expense is measured by interim reporting period net income before tax multiplied by best estimate effective annual tax rate. And the best estimate effective annual tax rate is determined by the management. Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities may be offset against each other if the following criteria are met by the Bank and its subsidiaries:

- (a) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (b) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - 1. Levied by the same taxing authority; or
  - 2. Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

As a subsidiary of CTBC Financial Holding Co., Ltd., the Bank files a consolidated corporate income tax return with its parent company and its subsidiaries. The difference between the consolidated income tax and the Bank's ordinary income tax is adjusted at the parent-company level, and the Bank recognizes such difference as payables or receivables.

The Bank's 10% surtax on undistributed earnings is recorded as current expense on the date of the resolution of the board of directors on behalf of stockholders' meeting for declaring the distribution of earnings.

**(T) Contingent liabilities**

A contingent liability is defined as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank or its subsidiaries; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. The Bank and its subsidiaries shall not recognize a contingent liability; instead, contingent liability shall be appropriately disclosed.

**(U) Operating segments**

An operating segment is a component of the Bank and its subsidiaries that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank and its subsidiaries). The segment's operating results are reviewed regularly by the Bank's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance for which discrete financial information is available.

The prime responsibility of the Bank's parent company CTBC Financial Holding Co., Ltd. is the management of its subsidiaries, whose operational performance and resource allocation are executed under board approval of the parent company. The Bank and component subsidiaries periodically report actual financial results to the Group's Management Board, and thereby leading to its role as the chief operating decision maker.

**5. PRIMARY SOURCES OF SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS UNCERTAINTY**

When preparing the consolidated financial reports, the management needs to make judgments, estimates, and assumptions that affect the adoption of accounting policies, reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from these estimates.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Continuously evaluation of estimates and assumption should be made by the management. A change of accounting estimate should be recognized in the period when it incurs and in the affected future periods.

Please refer to the following for accounting policies and management judgments for certain account items have significant impacts on financial reports of the Bank and its subsidiaries and any information about any estimate and assumption that are uncertain, have significant risk and may have significant impact on the following year.

(A) Impairment loss on loans

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

Please refer to Note 6(I) for impairment loss on loans.

(B) Post-employment benefits

The present value of post-employment benefits obligation is based on actuarial results of multiple assumptions. Any assumption changes will affect the carrying amount of post-employment benefits obligation.

The assumptions that determine net pension cost (revenue) include discount rate. The Bank and its subsidiaries determine an appropriate discount rate at the end of each year, and use the discount rate to calculate the present value of future cash outflow needed to cover the post-employment benefits obligation. To determine an appropriate discount rate, the Bank and its subsidiaries should take into account the interest rate of high-quality corporate bond or government bond, which should be issued in the same currency as that of post-employment benefits payments. The maturity of the bonds should match that of pension liability.

Other significant assumptions of post-employment benefits obligation are based on current market conditions. Please refer to Note 6(AA).

## 6. SUMMARY OF MAJOR ACCOUNTS

(A) Cash and cash equivalents

|                               | <u>December 31, 2014</u>     | <u>December 31, 2013</u> |
|-------------------------------|------------------------------|--------------------------|
| Cash on hand                  | \$ 24,353,048                | 17,074,209               |
| Petty cash and revolving fund | 12,398                       | 11,841                   |
| Checks for clearance          | 3,731,806                    | 2,723,737                |
| Cash in transit               | 10,811,662                   | 5,659,700                |
| Due from other banks          | 70,121,185                   | 58,961,769               |
| Total                         | <u><u>\$ 109,030,099</u></u> | <u><u>84,431,256</u></u> |



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(B) Due from Central Bank and call loans to bank

|                            | <u>December 31, 2014</u>     | <u>December 31, 2013</u>  |
|----------------------------|------------------------------|---------------------------|
| Required reserve—Account A | \$ 31,321,818                | 23,216,670                |
| Required reserve—Account B | 38,109,441                   | 37,011,531                |
| Due from Central Bank      | 101,375,061                  | 8,635,967                 |
| Call loans to banks        | 103,486,082                  | 56,261,463                |
| Total                      | <u><u>\$ 274,292,402</u></u> | <u><u>125,125,631</u></u> |

The reserves for deposits are calculated at prescribed rates, using the average monthly balances of various deposit accounts, and are appropriated and deposited in the reserve account of the Central Bank of the Republic of China (Taiwan). Deposits in “Required reserve—Account A” are interest-free and can be withdrawn at any time; deposits in “Required reserve—Account B” are interest-bearing and cannot be withdrawn except for the monthly adjustment to the required reserve permitted by relevant regulations.

Parts of the above due from Central Bank and call loans to banks are restricted, and please refer to Note 8 for further details.

(C) Financial instruments measured at fair value through profit or loss

The financial assets held for trading and the financial assets measured at fair value through profit and loss upon designation by the Bank and its subsidiaries were as follows:

|                                                                              | <u>December 31, 2014</u>     | <u>December 31, 2013</u> |
|------------------------------------------------------------------------------|------------------------------|--------------------------|
| Financial Assets Held for Trading                                            |                              |                          |
| Commercial paper                                                             | \$ 30,489,686                | 39,378,571               |
| Treasury bills                                                               | 76,361                       | -                        |
| Government bonds                                                             | 2,959,462                    | 1,531,832                |
| Convertible bonds                                                            | 4,701,647                    | 5,501,312                |
| Financial debentures                                                         | -                            | 4,091                    |
| Listed and OTC securities                                                    | 155,145                      | 776,323                  |
| Beneficiary certificates                                                     | 265,266                      | -                        |
| Asset-backed securities                                                      | -                            | 132,306                  |
| Derivative financial assets                                                  | 57,709,720                   | 27,393,924               |
| Valuation adjustment of financial assets                                     | 285,945                      | 276,286                  |
| Subtotal                                                                     | <u>96,643,232</u>            | <u>74,994,645</u>        |
| Designated as financial assets measured at fair value through profit or loss |                              |                          |
| Corporate bonds                                                              | 6,547,705                    | -                        |
| Listed and OTC securities                                                    | 2,804,772                    | -                        |
| Other securities and bonds                                                   | 2,284,234                    | -                        |
| Valuation adjustment of financial assets                                     | 120,311                      | -                        |
| Subtotal                                                                     | <u>11,757,022</u>            | <u>-</u>                 |
| Total                                                                        | <u><u>\$ 108,400,254</u></u> | <u><u>74,994,645</u></u> |

Please refer to Note 6(T) for information with regard to repurchase conditions for financial assets held for trading shown above.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Financial liabilities measured at fair value through profit or loss of the Bank and its subsidiaries were as follows:

|                                                                       | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|-----------------------------------------------------------------------|--------------------------|--------------------------|
| Derivative financial liabilities                                      | \$ 62,556,008            | 27,913,158               |
| Financial liabilities designated at fair value through profit or loss | 30,260,239               | -                        |
| Borrowed listed and OTC securities                                    | -                        | 2,136                    |
| Total                                                                 | <u>\$ 92,816,247</u>     | <u>27,915,294</u>        |

The aforementioned financial liabilities designated at fair value through profit or loss were issued by the Bank in the fiscal year of 2014, with the related terms and conditions disclosed in Note 6(W). The amounts of fair value and its changes which are attributable to changes in market conditions that give rise to credit risk were as follows:

|                                                                                                              | <u>December 31, 2014</u> |
|--------------------------------------------------------------------------------------------------------------|--------------------------|
| Financial debentures at fair value                                                                           | \$ 30,260,239            |
| Changes in fair value that is not attributable to changes in market conditions that give rise to market risk | (464,012)                |
| The difference between book value and the amount payable upon maturity as specified in the contract          | (2,504,455)              |

The Bank assesses changes in fair value that is not attributable to changes in market conditions that give rise to credit risk by evaluating changes in fair value.

The fair value of the puttable financial liabilities issued by the Bank in the fiscal year of 2014 is evaluated based on the internal evaluation method, with evaluation parameters retrieved from unobservable market. In consideration of the discrepancy between evaluated price and transaction price, the Bank has recognized reserve for day one profits. The changes in reserve for day one profits were as follows :

|                                | <u>Reserve for day one profits</u> |
|--------------------------------|------------------------------------|
| <b>January 1, 2014</b>         | \$ -                               |
| Current issuance of debentures | 2,821,129                          |
| Current amortization           | (141,491)                          |
| Foreign exchange gains         | 72,430                             |
| <b>December 31, 2014</b>       | <u>\$ 2,752,068</u>                |

(D) Available-for-sale financial assets — net

|                                          | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|------------------------------------------|--------------------------|--------------------------|
| Negotiable certificates of deposit       | \$ 277,600,000           | 226,400,000              |
| Treasury bills                           | 380,907                  | 134,355                  |
| Government bonds                         | 178,873,891              | 56,743,397               |
| Corporate bonds                          | 42,604,744               | 950,720                  |
| Financial debentures                     | 15,548,059               | 2,755,632                |
| Beneficiary certificates                 | 5,975,950                | 5,972                    |
| Listed and OTC securities                | 3,002,907                | 5,546,751                |
| Asset-backed securities                  | 24,677,158               | 2,828,527                |
| Other securities and bonds               | 312,192                  | 497,169                  |
| Valuation adjustment of financial assets | 319,828                  | (468,249)                |
| Total                                    | <u>\$ 549,295,636</u>    | <u>295,394,274</u>       |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Please refer to Notes 6(T) and 8 for information with regard to the repurchase conditions for, or restrictions on, available-for-sale financial assets shown above.

Please refer to Note 9(A) for details of the trust contract with regard to Mega Financial Holding Company's shares held by the Bank.

(E) Derivative financial instruments — hedging

Hedging derivative financial assets of the Bank were as follows:

|                                                   | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|---------------------------------------------------|--------------------------|--------------------------|
| Fair value hedge:                                 |                          |                          |
| Interest rate swaps                               | \$ 205,614               | 910,113                  |
| Hedge of a net investment in a foreign operation: |                          |                          |
| Currency swaps                                    | 1,293,872                | -                        |
| Total                                             | <u>\$ 1,499,486</u>      | <u>910,113</u>           |

Hedging derivative financial liabilities of the Bank were as below:

|                                                   | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|---------------------------------------------------|--------------------------|--------------------------|
| Fair value hedge:                                 |                          |                          |
| Interest rate swaps                               | \$ 21,716                | 87,191                   |
| Non delivery forwards                             | 35,093                   | 16,397                   |
| Hedge of a net investment in a foreign operation: |                          |                          |
| Currency swaps                                    | 859,513                  | 151,524                  |
| Total                                             | <u>\$ 916,322</u>        | <u>255,112</u>           |

(a) Fair value hedge

In order to minimize the risk from future market interest rate fluctuation, the Bank entered into interest rate swap transactions, where the interest rate payable on fixed-interest-rate debts issued has been swapped with a floating interest rate to reduce interest rate risk. The Bank further entered into non-delivery forwards; these contracts are principally to hedge against the foreign exchange fluctuation of capital of the international banking department.

|                                                    | <b>Designated hedging instruments</b>                          |                          |                          |
|----------------------------------------------------|----------------------------------------------------------------|--------------------------|--------------------------|
|                                                    | <b>Financial instruments designated as hedging instruments</b> | <b>Fair value</b>        |                          |
|                                                    |                                                                | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
| <b>Hedged items</b>                                |                                                                |                          |                          |
| Perpetual subordinated debentures in USD           | Interest rate swaps                                            | \$ 151,934               | 818,787                  |
| Financial debentures in NTD                        | "                                                              | 31,964                   | 4,135                    |
| Capital of international banking department in USD | Non delivery forwards                                          | (35,093)                 | (16,397)                 |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For the year ended December 31, 2014 and 2013, net gains (losses) on the hedging derivative financial instruments and the hedged items were as follows:

|                                                        | For the year ended December 31 |           |
|--------------------------------------------------------|--------------------------------|-----------|
|                                                        | 2014                           | 2013      |
| Net gains (loss) from derivative financial instruments | \$ 116,470                     | (34,713)  |
| Net losses from the hedged items                       | \$ (517,319)                   | (344,220) |

(b) Hedge of a net investment in a foreign operation

In order to minimize the risk from overseas equity-method investments, the Bank entered into currency swaps to hedge against foreign exchange fluctuation.

| Hedged items                                  | Financial instruments<br>designated as<br>hedging instruments | Designated hedging instruments |                   |
|-----------------------------------------------|---------------------------------------------------------------|--------------------------------|-------------------|
|                                               |                                                               | Fair value                     |                   |
|                                               |                                                               | December 31, 2014              | December 31, 2013 |
| CTBC Bank Co., Ltd. - Ho Chi Minh City Branch | Currency swaps                                                | \$ (21,219)                    | (14,280)          |
| CTBC Capital Corp.                            | "                                                             | (193,935)                      | (136,902)         |
| CTBC Bank Corp. (Canada)                      | "                                                             | (4,047)                        | (342)             |
| The Tokyo Star Bank , Ltd.                    | "                                                             | 653,560                        | -                 |

(F) Securities purchased under reverse repurchase agreements

|                                                          | December 31, 2014 | December 31, 2013 |
|----------------------------------------------------------|-------------------|-------------------|
| Securities purchased under reverse repurchase agreements | \$ 2,774,393      | -                 |
| Face value of securities                                 | \$ 2,812,590      | -                 |

(G) Receivables — net

|                                          | December 31, 2014 | December 31, 2013 |
|------------------------------------------|-------------------|-------------------|
| Notes receivable                         | \$ 22,600         | 22,110            |
| Accounts receivable                      | 62,915,386        | 62,202,849        |
| Accounts receivable factoring            | 82,776,222        | 85,235,395        |
| Interest receivable                      | 6,942,168         | 4,237,083         |
| Acceptances receivable                   | 7,152,046         | 5,734,306         |
| Accrued income                           | 21,361            | 7,779             |
| Securities receivable                    | 8,092,830         | 2,102,863         |
| Other receivables                        | 10,019,998        | 8,576,261         |
| Subtotal                                 | 177,942,611       | 168,118,646       |
| Less: Allowance for credit losses        | (2,110,306)       | (2,523,778)       |
| Less: Adjustment of discount and premium | -                 | (225)             |
| Total                                    | \$ 175,832,305    | 165,594,643       |

The accounts receivable shown above included the receivables from credit card holders who were involved in debt repayment negotiation with the Bank.

Please refer to Note 8 for information with regard to the restrictions on other receivables shown above.

Please refer to Note 6(J) for changes in allowance for credit losses of receivables listed above.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Receivables of the Bank and its subsidiaries should be included in impairment assessment. Please refer to the following table for the amount of receivables and the respective allowance for credit losses, excluding that of credit card receivables, which is accounted for under provisions. Total receivables do not encompass investments in security-related and other receivables whose impairment assessments are consistent with corresponding assets.

|                                                    |  | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|----------------------------------------------------|--|--------------------------|--------------------------|
| Receivables excluded from evaluation of impairment |  | <u>\$ 9,083,691</u>      | <u>2,901,449</u>         |

|                                          |                       | <u>December 31, 2014</u> |                                                   |                                        |
|------------------------------------------|-----------------------|--------------------------|---------------------------------------------------|----------------------------------------|
|                                          |                       |                          | <u>Adjustment of<br/>discount and<br/>premium</u> | <u>Allowance for<br/>credit losses</u> |
| <u>Items</u>                             |                       | <u>Receivables</u>       |                                                   |                                        |
| With objective evidence of impairment    | Individual assessment | \$ 294,941               | -                                                 | 237,023                                |
|                                          | Collective assessment | 3,930,723                | -                                                 | 508,012                                |
| Without objective evidence of impairment | Collective assessment | 162,991,509              | -                                                 | 1,365,271                              |
| Total                                    |                       | <u>\$ 167,217,173</u>    | <u>-</u>                                          | <u>2,110,306</u>                       |

|                                          |                       | <u>December 31, 2013</u> |                                                   |                                        |
|------------------------------------------|-----------------------|--------------------------|---------------------------------------------------|----------------------------------------|
|                                          |                       |                          | <u>Adjustment of<br/>discount and<br/>premium</u> | <u>Allowance for<br/>credit losses</u> |
| <u>Items</u>                             |                       | <u>Receivables</u>       |                                                   |                                        |
| With objective evidence of impairment    | Individual assessment | \$ 693,831               | -                                                 | 676,980                                |
|                                          | Collective assessment | 4,413,442                | -                                                 | 597,978                                |
| Without objective evidence of impairment | Collective assessment | 158,343,902              | (225)                                             | 1,248,820                              |
| Total                                    |                       | <u>\$ 163,451,175</u>    | <u>(225)</u>                                      | <u>2,523,778</u>                       |

(H) Assets held for sale—net

The Bank's board of directors approved the planned sale of 95% fractional ownership of its headquarter building on September 25, 2013. The Bank is commencing its auction to sell this property which is classified as held for sale accordingly.

|             | <u>December 31,<br/>2014</u> | <u>December 31,<br/>2013</u> |
|-------------|------------------------------|------------------------------|
| Real estate | <u>\$ 6,323,343</u>          | <u>6,323,343</u>             |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(I) Loans — net

|                                                  | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|--------------------------------------------------|--------------------------|--------------------------|
| Corporate loans                                  | \$ 478,243,722           | 447,510,069              |
| Micro-business loans                             | 16,067,308               | 11,150,147               |
| Mortgage loans                                   | 363,754,381              | 360,320,143              |
| Automobile loans                                 | 1,273                    | 1,665                    |
| Consumer loans                                   | 102,169,051              | 95,836,393               |
| Subtotal of NTD loans                            | 960,235,735              | 914,818,417              |
| Foreign currency loans                           | 872,894,317              | 370,855,755              |
| Non-accrual loans                                | 15,618,791               | 4,677,660                |
| Subtotal                                         | 1,848,748,843            | 1,290,351,832            |
| Less: Allowance for credit losses                | (27,136,043)             | (17,101,395)             |
| Less: Adjustment of discount and premium         | (1,594,630)              | (869,571)                |
| Fair value adjustment resulting from acquisition | 177,984                  | -                        |
| Total                                            | <b>\$ 1,820,196,154</b>  | <b>1,272,380,866</b>     |

The loans shown above included the loans to cash card holders and fiduciary loans to clients who were involved in debt repayment negotiation with the Bank.

Please refer to Note 6(AR) for the industry information.

Non-performing loans of the Bank and its subsidiaries were as follows:

|                      | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|----------------------|--------------------------|--------------------------|
| Non-performing loans | <b>\$ 17,659,396</b>     | <b>4,963,896</b>         |

For the year ended December 31, 2014 and 2013, suspended interest on non-performing loans were as follows:

|                                            | <b>For the year ended<br/>December 31, 2014</b> | <b>For the year ended<br/>December 31, 2013</b> |
|--------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Suspended interest on non-performing loans | <b>\$ 89,553</b>                                | <b>169,348</b>                                  |

For the year ended December 31, 2014 and 2013, there were no loans written off without prior recourse.

Please refer to Note 6(J) for changes in allowance for credit losses of loans listed above.

Loans should be included in the total amounts of assessment of impairment to determine the allowance for credit losses, which was as follows:

|                                          |                       | <b>December 31, 2014</b> |                                                   |                                        |
|------------------------------------------|-----------------------|--------------------------|---------------------------------------------------|----------------------------------------|
|                                          |                       |                          | <b>Adjustment of<br/>discount and<br/>premium</b> | <b>Allowance for<br/>credit losses</b> |
| <b>Items</b>                             | <b>Loans</b>          |                          |                                                   |                                        |
| With objective evidence of impairment    | Individual assessment | \$ 25,166,383            | (49,381)                                          | 6,602,068                              |
|                                          | Collective assessment | 22,796,388               | 3,496                                             | 4,158,796                              |
| Without objective evidence of impairment | Collective assessment | 1,800,786,072            | (1,548,745)                                       | 16,375,179                             |
| Total                                    |                       | <b>\$ 1,848,748,843</b>  | <b>(1,594,630)</b>                                | <b>27,136,043</b>                      |



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

|                                          |                       | <b>December 31, 2013</b> |                                           |                                    |
|------------------------------------------|-----------------------|--------------------------|-------------------------------------------|------------------------------------|
|                                          |                       | <b>Loans</b>             | <b>Adjustment of discount and premium</b> | <b>Allowance for credit losses</b> |
| <b>Items</b>                             |                       |                          |                                           |                                    |
| With objective evidence of impairment    | Individual assessment | \$ 20,403,312            | (43,594)                                  | 3,739,626                          |
|                                          | Collective assessment | 18,902,507               | 6,177                                     | 2,720,937                          |
| Without objective evidence of impairment | Collective assessment | 1,251,046,013            | (832,154)                                 | 10,640,832                         |
| <b>Total</b>                             |                       | <b>\$ 1,290,351,832</b>  | <b>(869,571)</b>                          | <b>17,101,395</b>                  |

**(J) Allowance for credit losses**

The changes in allowance for credit losses, attributed to loans, receivables, other financial assets, and provision of guarantee reserves, were as follows:

| <b>For the year ended December 31, 2014</b>                  |                                        |                                        |                  |                                        |                                        |                   |                     |                   |
|--------------------------------------------------------------|----------------------------------------|----------------------------------------|------------------|----------------------------------------|----------------------------------------|-------------------|---------------------|-------------------|
|                                                              | <b>Receivables</b>                     |                                        |                  | <b>Loans</b>                           |                                        |                   | <b>Other (Note)</b> | <b>Total</b>      |
|                                                              | <b>Inherent risk of overall claims</b> | <b>Default risk of specific claims</b> | <b>Total</b>     | <b>Inherent risk of overall claims</b> | <b>Default risk of specific claims</b> | <b>Total</b>      |                     |                   |
| Beginning balance                                            | \$ 1,248,820                           | 1,274,958                              | 2,523,778        | 10,640,832                             | 6,460,563                              | 17,101,395        | 420,509             | 20,045,682        |
| Transferred from the merger                                  | 3,450                                  | 1,160                                  | 4,610            | 2,939,453                              | 6,376,566                              | 9,316,019         | 19,548              | 9,340,177         |
| Current provision (reversal)                                 | 92,785                                 | (333,747)                              | (240,962)        | 2,858,236                              | 422,960                                | 3,281,196         | 10,910              | 3,051,144         |
| Current write-off                                            | -                                      | (1,292,576)                            | (1,292,576)      | -                                      | (3,633,657)                            | (3,633,657)       | (118,920)           | (5,045,153)       |
| Recovery of bad debts                                        | -                                      | 1,073,439                              | 1,073,439        | -                                      | 1,749,201                              | 1,749,201         | 225                 | 2,822,865         |
| Non-accrual loans transferred from non-loan financial assets | -                                      | 19,442                                 | 19,442           | -                                      | -                                      | -                 | (19,442)            | -                 |
| Exchange rate effects                                        | 20,216                                 | 2,359                                  | 22,575           | (63,342)                               | (614,769)                              | (678,111)         | 13,939              | (641,597)         |
| <b>Ending balance</b>                                        | <b>\$ 1,365,271</b>                    | <b>745,035</b>                         | <b>2,110,306</b> | <b>16,375,179</b>                      | <b>10,760,864</b>                      | <b>27,136,043</b> | <b>326,769</b>      | <b>29,573,118</b> |

| <b>For the year ended December 31, 2013</b>                  |                                        |                                        |                  |                                        |                                        |                   |                     |                   |
|--------------------------------------------------------------|----------------------------------------|----------------------------------------|------------------|----------------------------------------|----------------------------------------|-------------------|---------------------|-------------------|
|                                                              | <b>Receivables</b>                     |                                        |                  | <b>Loans</b>                           |                                        |                   | <b>Other (Note)</b> | <b>Total</b>      |
|                                                              | <b>Inherent risk of overall claims</b> | <b>Default risk of specific claims</b> | <b>Total</b>     | <b>Inherent risk of overall claims</b> | <b>Default risk of specific claims</b> | <b>Total</b>      |                     |                   |
| Beginning balance                                            | \$ 670,501                             | 1,276,917                              | 1,947,418        | 4,828,880                              | 7,126,390                              | 11,955,270        | 427,421             | 14,330,109        |
| Current provision (reversal)                                 | 568,282                                | (408,828)                              | 159,454          | 5,756,501                              | 118,001                                | 5,874,502         | 152,263             | 6,186,219         |
| Current write-off                                            | -                                      | (767,313)                              | (767,313)        | -                                      | (2,839,280)                            | (2,839,280)       | (152,178)           | (3,758,771)       |
| Recovery of bad debts                                        | -                                      | 1,162,393                              | 1,162,393        | -                                      | 2,081,817                              | 2,081,817         | 820                 | 3,245,030         |
| Non-accrual loans transferred from non-loan financial assets | -                                      | 13,956                                 | 13,956           | -                                      | -                                      | -                 | (13,956)            | -                 |
| Exchange rate effects                                        | 10,037                                 | (2,167)                                | 7,870            | 55,451                                 | (26,365)                               | 29,086            | 6,139               | 43,095            |
| <b>Ending balance</b>                                        | <b>\$ 1,248,820</b>                    | <b>1,274,958</b>                       | <b>2,523,778</b> | <b>10,640,832</b>                      | <b>6,460,563</b>                       | <b>17,101,395</b> | <b>420,509</b>      | <b>20,045,682</b> |

Note: Including other financial assets and provision of guarantee reserves, etc.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(K) Held-to-maturity financial assets — net

|                                    | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|------------------------------------|--------------------------|--------------------------|
| Negotiable certificates of deposit | \$ 27,002,028            | 38,899,472               |
| Treasury bills                     | 4,853,462                | 3,144,422                |
| Government bonds                   | 28,265,827               | 10,560,995               |
| Corporate bonds                    | 3,372,813                | 3,060,168                |
| Financial debentures               | 7,132,778                | 5,507,446                |
| Asset-backed securities            | 77,865                   | 102,431                  |
| Total                              | <b>\$ 70,704,773</b>     | <b>61,274,934</b>        |

Please refer to Notes 6(T) and 8 for information with regard to the repurchase conditions for, or restrictions on, held-to-maturity financial assets shown above.

(L) Financial assets securitization

During the third quarter of 2004, the Bank securitized its mortgage loans with a book value of \$5,031,192 with Deutsche Bank AG, Taipei Branch (Deutsche Bank), as Trustee, and offered security in the form of beneficiary certificates. These beneficiary certificates have a redemption period from August 10, 2004 to August 25, 2024. The other terms of these beneficiary certificates are as follows:

| <b>Class of beneficiary certificates issued</b> | <b>Order of principal repayment</b> | <b>Issue amount/<br/>Face value</b> | <b>Interest Rate</b>  | <b>Payment frequency</b> |
|-------------------------------------------------|-------------------------------------|-------------------------------------|-----------------------|--------------------------|
| Class A                                         | 1 <sup>st</sup>                     | 4,325,000                           | the index rate +0.25% | once a month             |
| Class B                                         | 2 <sup>nd</sup>                     | 250,000                             | the index rate +0.55% | once a month             |
| Class C                                         | 3 <sup>rd</sup>                     | 150,000                             | the index rate +0.80% | once a month             |
| Class D                                         | 4 <sup>th</sup>                     | 130,000                             | the index rate +1.25% | once a month             |
| Class E                                         | 5 <sup>th</sup>                     | 176,192                             | None                  | once a month             |

The Bank holds the Class E beneficiary certificates and retains the right to interest in excess of the amount paid to the holders of class A, B, C and D beneficiary certificates. If the mortgage loan debtors default, neither the investor nor the Trustee has the right of recourse to the Bank. The repayment of the principal of Class E beneficiary certificates is subordinate to the investors' certificates, and their value is affected by the credit risk, prepayment, and interest risk of the securitized loans.

The Bank had already accomplished the requirements of repurchasing the mortgage loan which was collateralized by the trust. On September 25, 2014, the Bank exercised the right to purchase the remaining mortgage loan securitization and received the terminated allocation of trust. Due to the above transaction, the Bank recognized reversal of impairment loss on class E beneficiary certificates amounting to \$8,355, and recognized gains on disposed of assets amounting to \$66,684, which accounted under gains on reversal of impairment loss and realized gains on held-to-maturity financial assets, respectively.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For the year ended December 31, 2014 and 2013, the cash flows received from and paid to securitization trusts were as follows:

|                                                 | <b>For the year ended<br/>December 31, 2014</b> | <b>For the year ended<br/>December 31, 2013</b> |
|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Servicing fees received                         | \$ 668                                          | 1,097                                           |
| Other cash flows received on retained interests | 176,425                                         | 4,322                                           |
| Recovery of cash reserve                        | 11,926                                          | 326                                             |
| Servicing advances                              | (1,411)                                         | (3,111)                                         |
| Recovery of servicing advances                  | 1,763                                           | 3,342                                           |

(M) Investment under equity method—net

|                                                                                  | <b>December 31, 2014</b> |                     |
|----------------------------------------------------------------------------------|--------------------------|---------------------|
|                                                                                  | <b>%</b>                 | <b>Book value</b>   |
| Grand Bills Finance Corporation<br>(original investment at \$1,010,880 thousand) | 21.15                    | \$ 1,768,036        |
| GCB Finance (HK) Limited<br>(original investment at \$223,050 thousand) (Note)   | 100.00                   | 242,930             |
| Total                                                                            |                          | <b>\$ 2,010,966</b> |

Note: In the process of liquidation.

|                                                                                  | <b>December 31, 2013</b> |                     |
|----------------------------------------------------------------------------------|--------------------------|---------------------|
|                                                                                  | <b>%</b>                 | <b>Book value</b>   |
| Grand Bills Finance Corporation<br>(original investment at \$1,010,880 thousand) | 21.15                    | \$ 1,702,873        |
| GCB Finance (HK) Limited<br>(original investment at \$223,050 thousand)          | 100.00                   | 319,300             |
| Total                                                                            |                          | <b>\$ 2,022,173</b> |

For the year ended December 31, 2014 and 2013, the amount of profit and loss from associates recognized under equity-method investments was as below:

|                                 | <b>For the year ended December 31</b> |               |
|---------------------------------|---------------------------------------|---------------|
|                                 | <b>2014</b>                           | <b>2013</b>   |
| Grand Bills Finance Corporation | \$ 97,201                             | 71,838        |
| GCB Finance (HK) Limited        | (114,393)                             | 2,797         |
| Total                           | <b>\$ (17,192)</b>                    | <b>74,635</b> |

The financial information of the associates of the Bank and its subsidiaries is as below:

|                   | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|-------------------|--------------------------|--------------------------|
| Total assets      | \$ 65,212,966            | 61,497,132               |
| Total liabilities | 56,610,528               | 53,126,423               |
| Net assets        | <b>\$ 8,602,438</b>      | <b>8,370,709</b>         |

|                            | <b>For the year ended<br/>December 31, 2014</b> | <b>For the year ended<br/>December 31, 2013</b> |
|----------------------------|-------------------------------------------------|-------------------------------------------------|
| Net revenue                | \$ 1,245,232                                    | 1,203,310                                       |
| Net profit after tax       | <b>\$ 345,146</b>                               | <b>356,800</b>                                  |
| Other comprehensive income | <b>\$ 129,944</b>                               | <b>(172,387)</b>                                |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(N) Other financial assets — net

|                                                                                                | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| Short-term advances                                                                            | \$ 452,022               | 621,006                  |
| Less: allowance for credit losses — short-term advances                                        | (15,254)                 | (31,926)                 |
| Deposits pledged                                                                               | 411,106                  | 438,660                  |
| Investment in debt instruments without active markets—net                                      | 17,600,409               | -                        |
| Financial assets carried at cost—net                                                           | 2,076,856                | 1,780,892                |
| Non-accrual loans transferred from non-loan financial assets                                   | 105,580                  | 114,527                  |
| Less: Allowance for credit losses—non-accrual loans transferred from non-loan financial assets | (86,510)                 | (99,004)                 |
| Loan held for sale                                                                             | -                        | 96,105                   |
| Others                                                                                         | 181,366                  | 131,119                  |
| Total                                                                                          | <b>\$ 20,725,575</b>     | <b>3,051,379</b>         |

Financial assets carried at cost are stock investments of the Bank and its subsidiaries. Since no active quoted market is available, nor the fair value is reliably measureable, acquisition cost is therefore adopted as the baseline for the valuation of such assets.

Please refer to Note 6(J) for information with regard to the changes of short-term advances and allowance for credit losses of non-accrual loans transferred from non-loan financial assets shown above.

Loans held for sale are a portion of creditor's rights that the Bank's sub-subsidiary CTBC Bank Corp. (USA) intended to sell. As the purpose of holding those creditor's rights has changed, these loans held for sale were evaluated using the lower-of-cost-or-market method. The Bank's sub-subsidiary CTBC Bank Corp. (USA) sold them to its parent company, CTBC Capital Corp. (CCC). The loans were held for sale by CCC and were sold to non-related parties; please refer to Note 6(AR) for more information.

Please refer to Note 8 for information with regard to the restrictions on the other financial assets shown above.

(O) Premises and equipment — net

| <b>December 31, 2014</b>          | <b>Cost</b>          | <b>Accumulated depreciation</b> | <b>Accumulated impairment</b> | <b>Net</b>        |
|-----------------------------------|----------------------|---------------------------------|-------------------------------|-------------------|
| Land                              | \$ 14,640,386        | -                               | 130,203                       | 14,510,183        |
| Buildings                         | 20,336,149           | 4,148,916                       | 72,436                        | 16,114,797        |
| Transportation equipment          | 60,454               | 27,764                          | -                             | 32,690            |
| Miscellaneous equipment           | 5,532,386            | 2,957,612                       | -                             | 2,574,774         |
| Construction in progress          | 6,993,064            | -                               | -                             | 6,993,064         |
| Prepayment for equipment          | 393,945              | -                               | -                             | 393,945           |
| Prepayment for land and buildings | 2,030,182            | -                               | -                             | 2,030,182         |
| Leased premises                   | 314,572              | 145,618                         | -                             | 168,954           |
| Total                             | <b>\$ 50,301,138</b> | <b>7,279,910</b>                | <b>202,639</b>                | <b>42,818,589</b> |

| <b>December 31, 2013</b>          | <b>Cost</b>          | <b>Accumulated depreciation</b> | <b>Accumulated impairment</b> | <b>Net</b>        |
|-----------------------------------|----------------------|---------------------------------|-------------------------------|-------------------|
| Land                              | \$ 14,140,385        | -                               | 109,949                       | 14,030,436        |
| Buildings                         | 10,576,517           | 3,488,082                       | 62,015                        | 7,026,420         |
| Transportation equipment          | 57,830               | 28,920                          | -                             | 28,910            |
| Miscellaneous equipment           | 4,089,532            | 2,405,281                       | -                             | 1,684,251         |
| Construction in progress          | 10,032,598           | -                               | -                             | 10,032,598        |
| Prepayment for equipment          | 220,069              | -                               | -                             | 220,069           |
| Prepayment for land and buildings | 1,025,229            | -                               | -                             | 1,025,229         |
| Leased premises                   | 289,177              | 108,186                         | -                             | 180,991           |
| Total                             | <b>\$ 40,431,337</b> | <b>6,030,469</b>                | <b>171,964</b>                | <b>34,228,904</b> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Changes in the cost are as below:

|                                      | January 1,<br>2014   | Current increase<br>(Note 1) | Current decrease<br>(Note 1) | Others (exchange<br>difference) | December 31,<br>2014 |
|--------------------------------------|----------------------|------------------------------|------------------------------|---------------------------------|----------------------|
| Land                                 | \$ 14,140,385        | 561,604                      | 9,201                        | (52,402)                        | 14,640,386           |
| Buildings                            | 10,576,517           | 10,431,500                   | 641,372                      | (30,496)                        | 20,336,149           |
| Transportation equipment             | 57,830               | 17,158                       | 17,282                       | 2,748                           | 60,454               |
| Miscellaneous equipment              | 4,089,532            | 3,100,300                    | 1,560,674                    | (96,772)                        | 5,532,386            |
| Construction in progress             | 10,032,598           | 5,818,801                    | 8,850,932                    | (7,403)                         | 6,993,064            |
| Prepayment for equipment             | 220,069              | 893,510                      | 719,634                      | -                               | 393,945              |
| Prepayment for land and<br>buildings | 1,025,229            | 1,004,953                    | -                            | -                               | 2,030,182            |
| Leased premises                      | 289,177              | 62,504                       | 33,884                       | (3,225)                         | 314,572              |
| Total                                | <u>\$ 40,431,337</u> | <u>21,890,330</u>            | <u>11,832,979</u>            | <u>(187,550)</u>                | <u>50,301,138</u>    |

|                                      | January 1,<br>2013   | Current increase<br>(Note 2) | Current decrease<br>(Note 2) | Others (exchange<br>difference) | December 31,<br>2013 |
|--------------------------------------|----------------------|------------------------------|------------------------------|---------------------------------|----------------------|
| Land                                 | \$ 17,054,530        | 493,580                      | 3,410,353                    | 2,628                           | 14,140,385           |
| Buildings                            | 13,294,246           | 1,866,207                    | 4,601,153                    | 17,217                          | 10,576,517           |
| Transportation equipment             | 59,247               | 16,362                       | 14,850                       | (2,929)                         | 57,830               |
| Miscellaneous equipment              | 4,380,915            | 851,994                      | 1,089,838                    | (53,539)                        | 4,089,532            |
| Construction in progress             | 6,460,491            | 3,798,200                    | 226,371                      | 278                             | 10,032,598           |
| Prepayment for equipment             | 15,667               | 226,783                      | 22,381                       | -                               | 220,069              |
| Prepayment for land and<br>buildings | 1,025,229            | 568,748                      | 568,748                      | -                               | 1,025,229            |
| Leased premises                      | 288,361              | 9,636                        | 8,820                        | -                               | 289,177              |
| Total                                | <u>\$ 42,578,686</u> | <u>7,831,510</u>             | <u>9,942,514</u>             | <u>(36,345)</u>                 | <u>40,431,337</u>    |

Note 1: For the year ended December 31, 2014, the increase in construction in progress was attributable to the transfer of \$58,536 from other assets—superficies, while the decrease was attributable to the transfer of \$8,761,898, \$46,273 and \$20,914 to buildings, miscellaneous equipment and prepayment for equipment, respectively. The increase in miscellaneous equipment was attributable to the transfer of \$719,293 and \$366,966 from prepayment for equipment and other assets, respectively; while the decrease was due to the transfer of \$698,203 to other assets. The current increase in buildings was attributable to the transfer of \$342 from prepayment for equipment. The increase of \$3,625,294 was due to the acquisition of The Tokyo Star Bank, Ltd.

Note 2 : For the year ended December 31, 2013, the increase in construction in progress was attributable to the transfer of \$67,283 from other assets—superficies, while the decrease was attributable to the transfer of \$185,857 to buildings. The decline of prepayment for land and buildings was driven by the transfer of \$75,187 to buildings and \$493,561 to land. The reduction in prepayment for equipment stemmed from the transfer of \$22,381 to miscellaneous equipment. The increase in miscellaneous equipment was attributable to the transfer from other assets and construction in process amounting to \$310 and \$36,549, respectively. The respective decreases in land and buildings amounted to \$3,410,353 and \$4,334,169 were reclassified to assets held for sale.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Changes in accumulated depreciation are as below:

|                          | January 1,<br>2014  | Current increase<br>(Note1) | Current decrease | Others (exchange<br>difference) | December 31,<br>2014 |
|--------------------------|---------------------|-----------------------------|------------------|---------------------------------|----------------------|
| Buildings                | \$ 3,488,082        | 1,232,115                   | 513,667          | (57,614)                        | 4,148,916            |
| Transportation equipment | 28,920              | 11,856                      | 14,296           | 1,284                           | 27,764               |
| Miscellaneous equipment  | 2,405,281           | 1,791,901                   | 1,160,341        | (79,229)                        | 2,957,612            |
| Leased premises          | 108,186             | 72,125                      | 33,626           | (1,067)                         | 145,618              |
| Total                    | <u>\$ 6,030,469</u> | <u>3,107,997</u>            | <u>1,721,930</u> | <u>(136,626)</u>                | <u>7,279,910</u>     |

|                          | January 1,<br>2013  | Current increase | Current decrease<br>(Note2) | Others (exchange<br>difference) | December 31,<br>2013 |
|--------------------------|---------------------|------------------|-----------------------------|---------------------------------|----------------------|
| Buildings                | \$ 4,636,404        | 505,101          | 1,643,433                   | (9,990)                         | 3,488,082            |
| Transportation equipment | 32,328              | 11,525           | 13,493                      | (1,440)                         | 28,920               |
| Miscellaneous equipment  | 2,905,848           | 613,981          | 1,069,934                   | (44,614)                        | 2,405,281            |
| Leased premises          | 49,526              | 62,289           | 3,629                       | -                               | 108,186              |
| Total                    | <u>\$ 7,624,106</u> | <u>1,192,896</u> | <u>2,730,489</u>            | <u>(56,044)</u>                 | <u>6,030,469</u>     |

Note 1: For the year ended December 31, 2014, the increase of \$1,770,219 was due to the acquisition of The Tokyo Star Bank, Ltd.

Note 2: The reduction in buildings included a transfer to assets held for sale amounting to \$1,421,179.

Changes in accumulated impairment are as below:

|           | January 1,<br>2014 | Current increase | Current decrease | Others (exchange<br>difference) | December 31,<br>2014 |
|-----------|--------------------|------------------|------------------|---------------------------------|----------------------|
| Land      | \$ 109,949         | 20,254           | -                | -                               | 130,203              |
| Buildings | 62,015             | 10,421           | -                | -                               | 72,436               |
| Total     | <u>\$ 171,964</u>  | <u>30,675</u>    | <u>-</u>         | <u>-</u>                        | <u>202,639</u>       |

|           | January 1,<br>2013 | Current increase | Current decrease | Others(exchange<br>difference) | December 31,<br>2013 |
|-----------|--------------------|------------------|------------------|--------------------------------|----------------------|
| Land      | \$ 95,594          | 14,355           | -                | -                              | 109,949              |
| Buildings | 54,138             | 7,877            | -                | -                              | 62,015               |
| Total     | <u>\$ 149,732</u>  | <u>22,232</u>    | <u>-</u>         | <u>-</u>                       | <u>171,964</u>       |

Please refer to Note 6(AL) for information with regard to the impairment losses of premises and equipment for the year end December 31, 2014 and 2013.

The Bank's Shanghai Branch signed a contract with Shanghai World Financial Center for the purchase of real estate on March 18, 2013, expecting to acquire the Century Building in Pudong New District, Shanghai, as its new operation office. From signing the agreement until the transfer of superficies, the costs are classified as buildings under premises and equipment—net.

On September 4, 2012, the Bank signed with Continental Development Corporation a contract of sale of buildings and land. Five years from September 4, 2012, the Bank will obtain the rights of land, currently owned by Continental Development Corporation, along with the 1st to 8th floors and parking spaces of the new building located there. The zoning code of the land is No. 99 & 100, Huikuo Section, Xitun District, Taichung City. The \$2,181,000 contract price was negotiated based on the appraisal report prepared by DTZ Real Estate Appraisal Firm and Savills Real Estate Appraisal Firm. The contract price will be paid in installments proportionate with construction progress during the contract period, accounted for under premises and equipment—net, prepayment for land and buildings.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(P) Intangible assets — net

|                   | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|-------------------|--------------------------|--------------------------|
| Goodwill          | \$ 10,385,891            | 10,385,891               |
| Computer software | 4,207,326                | 1,805,161                |
| Others            | 3,094                    | 4,126                    |
| Total             | <b>\$ 14,596,311</b>     | <b>12,195,178</b>        |

Goodwill of the Bank and its subsidiaries was acquired from business combination.

Changes in intangible assets were as follows:

|                   | <b>January 1,<br/>2014</b> | <b>Current increase<br/>(Note 1)</b> | <b>Current decrease<br/>(Note 1)</b> | <b>Others (exchange<br/>difference)</b> | <b>December 31,<br/>2014</b> |
|-------------------|----------------------------|--------------------------------------|--------------------------------------|-----------------------------------------|------------------------------|
| Goodwill          | \$ 10,385,891              | -                                    | -                                    | -                                       | 10,385,891                   |
| Computer software | 1,805,161                  | 3,433,320                            | 816,090                              | (215,065)                               | 4,207,326                    |
| Others            | 4,126                      | -                                    | 1,032                                | -                                       | 3,094                        |
| Total             | <b>\$ 12,195,178</b>       | <b>3,433,320</b>                     | <b>817,122</b>                       | <b>(215,065)</b>                        | <b>14,596,311</b>            |

|                   | <b>January 1,<br/>2013</b> | <b>Current increase<br/>(Note 2)</b> | <b>Current decrease<br/>(Note 2)</b> | <b>Others (exchange<br/>difference)</b> | <b>December 31,<br/>2013</b> |
|-------------------|----------------------------|--------------------------------------|--------------------------------------|-----------------------------------------|------------------------------|
| Goodwill          | \$ 10,385,891              | -                                    | -                                    | -                                       | 10,385,891                   |
| Computer software | 1,804,985                  | 598,008                              | 586,811                              | (11,021)                                | 1,805,161                    |
| Others            | -                          | 4,556                                | 430                                  | -                                       | 4,126                        |
| Total             | <b>\$ 12,190,876</b>       | <b>602,564</b>                       | <b>587,241</b>                       | <b>(11,021)</b>                         | <b>12,195,178</b>            |

Note 1: For the year ended December 31, 2014, the increase of computer software was due to the transfer of \$264,685 from other assets. The decrease of computer software was due to the disposal of \$713. The increase of \$1,617,189 was due to the acquisition of The Tokyo Star Bank, Ltd.

Note 2: For the year ended December 31, 2013, the increase included \$312,459 transferred from other assets, while the decrease included loss from disposal of \$2,598.

(Q) Other assets — net

|                                        | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|----------------------------------------|--------------------------|--------------------------|
| Prepayments                            | \$ 4,400,684             | 3,196,372                |
| Deferred charges                       | 4,006                    | 20,763                   |
| Foreclosed properties received — net   | 109,566                  | 116,292                  |
| Temporary payments                     | 176,244                  | 78,023                   |
| Refundable deposits — net              | 16,851,263               | 2,637,281                |
| Superficies                            | 2,786,629                | 2,853,912                |
| Cash surrender value of life insurance | 1,714,669                | 1,570,716                |
| Others                                 | 501,933                  | 55,890                   |
| Total                                  | <b>\$ 26,544,994</b>     | <b>10,529,249</b>        |

In May 2006, the Bank acquired the superficies of lots 43, 43-1, 45 and 45-1 of Jingmao Section, Nankang, Taipei, from Taiwan Fertilizer Co., Ltd. for 50 years through a public tender. The acquisition cost amounted to \$3,364,140 (including business tax and other related expenses of the superficies). The rental is determined annually at the rate of 8% of the government-assessed present value. Please refer to Note 8 for information on performance guarantee deposits.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Please refer to Note 6(AL) for information regarding the impairment loss on foreclosed properties.

In order to fulfill the Bank's social responsibility, improve the image of the Bank and receive a long term benefit from advertisements, the Bank has planned to sponsor a professional baseball team by signing a sponsorship and cooperative advertisement contract with Hua Yi Entertaining Co. Ltd. on December 5, 2013, amounting to \$400,000 and accounted under prepaid expenses. The duration of the name of the baseball team will last for 10 years, starting from the date the Bank appointed the team name.

**(R) Deposits from Central Bank and other banks**

|                               | <u>December 31, 2014</u>    | <u>December 31, 2013</u> |
|-------------------------------|-----------------------------|--------------------------|
| Deposits from Central Bank    | \$ 141,868                  | 151,062                  |
| Deposits from other banks     | 4,399,721                   | 1,592,487                |
| Deposits from post offices    | 3,183,655                   | 3,746,997                |
| Overdraft against other banks | 3,025,236                   | 1,131,072                |
| Due to other banks            | 39,183,948                  | 41,787,894               |
| Total                         | <u><u>\$ 49,934,428</u></u> | <u><u>48,409,512</u></u> |

**(S) Due to Central Bank and other banks**

|                             | <u>December 31, 2014</u>    | <u>December 31, 2013</u> |
|-----------------------------|-----------------------------|--------------------------|
| Financing from Central Bank | \$ 47,670,033               | 3,217,210                |
| Financing from other banks  | 6,417,110                   | 4,166,820                |
| Total                       | <u><u>\$ 54,087,143</u></u> | <u><u>7,384,030</u></u>  |

**Financing from Central Bank:**

**(a) The Bank**

|                  | <u>December 31, 2014</u>                  | <u>December 31, 2013</u>                  |
|------------------|-------------------------------------------|-------------------------------------------|
| Borrowings (USD) | \$ 64,516                                 | 107,419                                   |
| Interest rate    | 6M LIBOR                                  | 0.32%~6M LIBOR                            |
| Maturity date    | July 26, 2019                             | July 26, 2019                             |
| Interest payment | semi-annually and<br>at the maturity date | semi-annually and<br>at the maturity date |

**(b) The Tokyo Star Bank, Ltd.**

|                  | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|------------------|--------------------------|--------------------------|
| Borrowings (JPY) | \$ 172,100,000           | -                        |
| Interest rate    | 0.10%                    | -                        |
| Maturity date    | June 6, 2016             | -                        |
| Interest payment | at the maturity date     | -                        |

**Financing from other banks:**

**(a) CTBC Bank Corp. (USA)**

|                             | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|-----------------------------|--------------------------|--------------------------|
| Inter bank borrowings (USD) | \$ 85,000                | 85,000                   |
| Interest rate               | 0.91%~2.96%              | 0.91%~5.62%              |
| Maturity date               | December 31, 2020        | December 31, 2020        |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(b) PT. Bank CTBC Indonesia**

|                             | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|-----------------------------|--------------------------|--------------------------|
| Inter bank borrowings (IDR) | \$ 908,637,638           | 659,266,300              |
| Interest rate               | 0.70%~1.83%              | 0.72%~9.60%              |
| Maturity date               | September 23, 2016       | July 19, 2016            |

**(c) The Tokyo Star Bank, Ltd.**

|                             | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|-----------------------------|--------------------------|--------------------------|
| Inter bank borrowings (JPY) | \$ 5,272,669             | -                        |
| Interest rate               | 1.48%                    | -                        |
| Maturity date               | December, 2032           | -                        |

**(T) Securities sold under repurchase agreements**

| <b>December 31, 2014</b>                                       |                      |                                 |                                         |                                       |
|----------------------------------------------------------------|----------------------|---------------------------------|-----------------------------------------|---------------------------------------|
| <b>Assets</b>                                                  | <b>Par value</b>     | <b>Selling price<br/>(Note)</b> | <b>Designated<br/>repurchase amount</b> | <b>Designated<br/>repurchase date</b> |
| Financial assets measured at fair value through profit or loss | \$ 4,955,000         | 4,949,253                       | 4,950,471                               | Before March 6, 2015                  |
| Available-for-sale financial assets — net                      | 47,220,992           | 48,188,404                      | 48,212,556                              | Before April 20, 2015                 |
| Held-to-maturity financial assets — net                        | 7,021,560            | 7,093,119                       | 7,097,875                               | Before June 23, 2015                  |
| <b>Total</b>                                                   | <b>\$ 59,197,552</b> | <b>60,230,776</b>               | <b>60,260,902</b>                       |                                       |

| <b>December 31, 2013</b>                                       |                      |                                 |                                         |                                       |
|----------------------------------------------------------------|----------------------|---------------------------------|-----------------------------------------|---------------------------------------|
| <b>Assets</b>                                                  | <b>Par value</b>     | <b>Selling price<br/>(Note)</b> | <b>Designated<br/>repurchase amount</b> | <b>Designated<br/>repurchase date</b> |
| Financial assets measured at fair value through profit or loss | \$ 7,206,700         | 7,199,025                       | 7,199,382                               | Before February 7, 2014               |
| Available-for-sale financial assets — net                      | 42,331,857           | 43,774,699                      | 43,792,826                              | Before March 25, 2014                 |
| Held-to-maturity financial assets — net                        | 9,798,700            | 10,064,470                      | 10,072,070                              | Before July 3, 2014                   |
| <b>Total</b>                                                   | <b>\$ 59,337,257</b> | <b>61,038,194</b>               | <b>61,064,278</b>                       |                                       |

Note: Recognized under securities sold under repurchase agreement.

**(U) Payables**

|                                                  | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|--------------------------------------------------|--------------------------|--------------------------|
| Accounts payable                                 | \$ 5,001,938             | 4,615,910                |
| Accounts payable factoring                       | 5,873,978                | 5,773,424                |
| Accrued expenses                                 | 16,422,047               | 12,359,287               |
| Interest payable                                 | 12,385,550               | 2,929,143                |
| Acceptances payable                              | 7,081,043                | 4,806,111                |
| Collection payable                               | 3,563,418                | 1,954,432                |
| Other tax payable                                | 658,914                  | 330,040                  |
| Dividends and bonuses payable                    | 131,713                  | 98,726                   |
| Checks for clearance                             | 3,467,222                | 2,589,013                |
| Interbank clearing payable                       | 494,980                  | 409,443                  |
| Miscellaneous lottery accounts payable           | 9,294,347                | 5,838,647                |
| Construction retainage received                  | 1,042,395                | 714,081                  |
| Online accounts payable                          | 2,147,577                | 330,243                  |
| Fees payable to trustee for asset securitization | -                        | 577,732                  |
| Securities payable                               | 6,379,083                | 1,032,067                |
| Other payables                                   | 2,868,802                | 1,174,326                |
| <b>Total</b>                                     | <b>\$ 76,813,007</b>     | <b>45,532,625</b>        |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(V) Deposits and remittances**

|                                    | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|------------------------------------|--------------------------|--------------------------|
| NTD deposits                       |                          |                          |
| Checking accounts                  | \$ 8,548,552             | 8,190,254                |
| Demand deposits                    |                          |                          |
| Demand deposits                    | 140,691,295              | 138,713,639              |
| Demand savings deposits            | 529,450,692              | 483,058,632              |
| Public treasury deposits           | 7,015,292                | 7,713,523                |
| Subtotal of demand deposits        | 677,157,279              | 629,485,794              |
| Time deposits                      |                          |                          |
| Time deposits                      | 182,199,435              | 201,322,073              |
| Time savings deposits              | 357,349,403              | 313,555,393              |
| Negotiable certificates of deposit | 1,370,200                | 1,100,800                |
| Public treasury deposits           | 10,370,000               | 10,975,874               |
| Others                             | 12,323,000               | 21,893,000               |
| Subtotal of time deposits          | 563,612,038              | 548,847,140              |
| Subtotal of NTD deposits           | 1,249,317,869            | 1,186,523,188            |
| Foreign currency deposits          | 1,171,946,421            | 543,900,729              |
| Stored value cards                 | 167                      | 203                      |
| Remittances under custody          | 216,494                  | 53,327                   |
| Remittances outstanding            | 1,146,223                | 691,878                  |
| Total                              | <b>\$ 2,422,627,174</b>  | <b>1,731,169,325</b>     |

**(W) Financial debentures**

| <b>Bonds</b>                                                                       | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 5.625% Step-up Callable Perpetual Subordinated Notes                               | \$ 15,859,998            | 14,976,465               |
| 2005-5                                                                             | 12,000,000               | 12,000,000               |
| 2006-1                                                                             | 3,100,000                | 3,100,000                |
| 2007-3                                                                             | -                        | 1,500,000                |
| 2007-4                                                                             | -                        | 2,000,000                |
| 2008-1                                                                             | 2,000,000                | 2,000,000                |
| 2008-2                                                                             | 700,000                  | 700,000                  |
| 2008-3                                                                             | 3,050,000                | 3,350,000                |
| 2011-1                                                                             | 12,900,000               | 12,900,000               |
| 2013-1                                                                             | 5,103,000                | 4,947,000                |
| 2014-1                                                                             | 20,000,000               | -                        |
| (subordinated financial debentures)                                                |                          |                          |
| 2014-2                                                                             | 15,000,000               | -                        |
| (subordinated financial debentures)                                                |                          |                          |
| 2014-1                                                                             | 9,198,220                |                          |
| (financial debentures) (Note 5)                                                    |                          |                          |
| 2014-2                                                                             | 23,566,474               |                          |
| (financial debentures) (Note 5)                                                    |                          |                          |
| No.4 Callable Unsecured Bond                                                       | 265,100                  | -                        |
| No.6 Callable Unsecured Bond                                                       | 291,610                  | -                        |
| No.7 Callable Unsecured Bond                                                       | 265,100                  | -                        |
| No.10 Callable Unsecured Bond                                                      | 1,643,620                | -                        |
| No.11 Callable Unsecured Bond                                                      | 556,710                  | -                        |
| No.12 Callable Unsecured Bond                                                      | 1,829,190                | -                        |
| No.13 Callable Unsecured Bond                                                      | 1,590,600                | -                        |
| No.14 Callable Unsecured Bond                                                      | 530,200                  | -                        |
| No.15 Callable Unsecured Bond                                                      | 265,100                  | -                        |
| No.16 Callable Unsecured Bond                                                      | 291,610                  | -                        |
| No.17 Callable Unsecured Bond                                                      | 1,086,910                | -                        |
| Adjustment for fair value increase of hedged transactions                          | 203,130                  | 812,733                  |
| Unamortized discount                                                               | (74,580)                 | (16,249)                 |
| Less: financial liability designated at fair value through profit or loss (Note 5) | (32,764,694)             | -                        |
|                                                                                    | <b>\$ 98,457,298</b>     | <b>58,269,949</b>        |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

| Bonds                                                | Terms of transactions |               |                                                                                                                                                                   | Bond issued                                                 |
|------------------------------------------------------|-----------------------|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
|                                                      | Issue date            | Maturity date | Interest rate                                                                                                                                                     | Type                                                        |
| 5.625% Step-up Callable Perpetual Subordinated Notes | 03/17/2005            | N/A           | 5.625%; an interest is payable semi-annually; if redemption right is not exercised 10 years after the issue date, the interest rate will be USD 6M LIBOR + 1.86%. | Perpetual accumulated subordinated financial debentures     |
| 2005-5                                               | 11/29/2005            | N/A           | A=3.35%, B=3.35%; if redemption right is not exercised 10 years after the issue date, the interest rate will be 90 days CP+1.85% for A and 4.35% for B.           | Perpetual non-accumulated subordinated financial debentures |
| 2006-1                                               | 05/17/2006            | 05/17/2016    | 2.14%                                                                                                                                                             | Unsecured financial debentures                              |
| 2007-3                                               | 12/14/2007            | 12/14/2014    | The prime rate plus 0.40% (Note 1)                                                                                                                                | Unsecured subordinated financial debentures                 |
| 2007-4                                               | 12/18/2007            | 12/18/2014    | 3.05%                                                                                                                                                             | "                                                           |
| 2008-1                                               | 04/10/2008            | 04/10/2023    | 3.49%                                                                                                                                                             | "                                                           |
| 2008-2                                               | 04/25/2008            | N/A           | 3.60%; if redemption right is not exercised 7 years after the issue date, the interest rate will be 4.60%.                                                        | Perpetual accumulated subordinated financial debentures     |
| 2008-3                                               | 04/25/2008            | 04/25/2015    | A=3.10%, B=3.00%. (Note 2)                                                                                                                                        | Unsecured subordinated financial debentures                 |
| 2011-1                                               | 09/27/2011            | 09/27/2021    | A=1.80%, B=1.95%. From the 4th year after the issue date, the interest rate will be the prime rate plus 0.55% (Note 3)                                            | "                                                           |
| 2013-1                                               | 03/12/2013            | 03/12/2016    | 2.90%                                                                                                                                                             | Unsecured financial debentures                              |
| 2014-1<br>(subordinated financial debentures)        | 06/18/2014            | N/A           | A=3.70%, B=4.00%.                                                                                                                                                 | Perpetual non-accumulated subordinated financial debentures |
| 2014-2<br>(subordinated financial debentures)        | 06/26/2014            | 6/26/2029     | A=2.00%, B=The prime rate plus 0.45%. (Note 4)                                                                                                                    | Unsecured subordinated financial debentures                 |
| 2014-1<br>(financial debentures)                     | 10/19/2014            | 10/09/2034    | 4.10% (Note 5)                                                                                                                                                    | Unsecured financial debentures                              |
| 2014-2<br>(financial debentures)                     | 11/26/2014            | 11/26/2044    | 0% (Note 5)                                                                                                                                                       | "                                                           |
| No.4 Callable Unsecured Bond                         | 01/13/2010            | 01/14/2020    | 3.49%; an interest is payable semi-annually                                                                                                                       | Unsecured subordinated financial debentures                 |
| No.6 Callable Unsecured Bond                         | 03/30/2010            | 03/30/2020    | 4.00%; an interest is payable semi-annually                                                                                                                       | "                                                           |
| No.7 Callable Unsecured Bond                         | 06/29/2010            | 06/29/2020    | 3.89%; an interest is payable semi-annually                                                                                                                       | "                                                           |
| No.10 Callable Unsecured Bond                        | 09/30/2011            | 09/30/2021    | 5.25%; an interest is payable semi-annually                                                                                                                       | "                                                           |
| No.11 Callable Unsecured Bond                        | 06/29/2012            | 06/29/2022    | 4.00%; an interest is payable semi-annually                                                                                                                       | "                                                           |
| No.12 Callable Unsecured Bond                        | 09/28/2012            | 09/28/2020    | 3.70%; an interest is payable semi-annually                                                                                                                       | "                                                           |
| No.13 Callable Unsecured Bond                        | 09/28/2012            | 09/28/2022    | 4.50%; an interest is payable semi-annually                                                                                                                       | "                                                           |
| No.14 Callable Unsecured Bond                        | 10/26/2012            | 10/26/2022    | 3.80%; an interest is payable semi-annually                                                                                                                       | "                                                           |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

| <b>Bonds</b>                  | <b>Terms of transactions</b> |                      |                                             | <b>Bond issued</b>                          |
|-------------------------------|------------------------------|----------------------|---------------------------------------------|---------------------------------------------|
|                               | <b>Issue date</b>            | <b>Maturity date</b> | <b>Interest rate</b>                        | <b>Type</b>                                 |
| No.15 Callable Unsecured Bond | 12/14/2012                   | 12/14/2022           | 3.50%; an interest is payable semi-annually | Unsecured subordinated financial debentures |
| No.16 Callable Unsecured Bond | 03/13/2013                   | 3/13/2023            | 3.28%; an interest is payable semi-annually | "                                           |
| No.17 Callable Unsecured Bond | 06/06/2013                   | 06/06/2023           | 3.26%; an interest is payable semi-annually | "                                           |

Note1: The prime rate is based on page code 6165 of Reuters (original: Associated Press), the fixed interest rate of 90-day CP/BA at 11:00 am on the interest reset date.

Note 2: Class B was expired on April 25, 2014.

Note 3: The original prime rate is based on page code 6165 of Reuters, the fixed interest rate of 90-day CP/BA at 11:00 am on the interest reset date. With the consensus reached among creditors through forward rate agreement, the prime rate will be changed to the 3-month Taipei Interbank Offered Rate (TAIBOR) from January 1, 2015.

Note4: The prime rate is based on page code 6165 of Reuters, the fixed interest rate of 90-day CP/BA at 11:00 am on the interest reset date. If no quotation is available on page code 6165 of Reuters, no page is displayed, or no prime rate is retrievable from Reuters, the Bank would change the resource of the rate. The Bank would set the prime rate as Secondary Market Fixing Rate of 90-day TAIBIR 02 from the "TAIBIR Section" in the webpage of Taiwan Depository and Clearing Corporation.

Note5: Financial debentures of 2014-1 and 2014-2 are recognized as financial liabilities designated at fair value through profit or loss. For more information, please refer to Note 6(C).

Please refer to Note 6(E) for the information on the hedging of bonds shown above.

**(X) Other financial liabilities**

|                         | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|-------------------------|--------------------------|--------------------------|
| Appropriated loan funds | \$ -                     | 16,763                   |
| Lease payable           | 175,361                  | 183,821                  |
| Structured products     | 136,203,107              | 15,456,071               |
| Others                  | 47,983                   | -                        |
| <b>Total</b>            | <b>\$ 136,426,451</b>    | <b>15,656,655</b>        |



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(Y) Provisions

|                                   | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|-----------------------------------|--------------------------|--------------------------|
| Settlement compensation provision | \$ 960,960               | 1,027,476                |
| Employee benefits provision       | 4,148,980                | 3,825,830                |
| Guarantee reserve                 | 206,828                  | 287,508                  |
| Other provisions                  | 183,255                  | 162                      |
| Total                             | <u>\$ 5,500,023</u>      | <u>5,140,976</u>         |

Settlement compensation provision, which was the estimated amount in compliance with IAS 37, was approved by the board of directors to be appropriated for settlement compensation of structured notes, and the Bank actively negotiated with the investors.

(Z) Other liabilities

|                                 | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|---------------------------------|--------------------------|--------------------------|
| Amount received in advance      | \$ 1,454,437             | 1,018,657                |
| Payable in custody              | 916,005                  | 968,121                  |
| Deferred income                 | 613,244                  | 705,570                  |
| Guarantee deposits received     | 31,962,488               | 1,051,550                |
| Temporary receipt               | 1,484,979                | 1,054,366                |
| Provision for the lottery prize | -                        | 966,913                  |
| Others                          | 260,056                  | 193,118                  |
| Total                           | <u>\$ 36,691,209</u>     | <u>5,958,295</u>         |

(AA) Employee benefits

(a) Defined contribution plan

The Bank's defined contribution plan follows the Labor Pension Act of the R.O.C. and makes monthly cash contributions to the employees' individual pension accounts at the Bureau of Labor Insurance at the rate of 6% of the employees' monthly salary. Under this plan, the Bank has no legal or constructive obligation to make other payments after the Bank makes the fixed amount of contribution to the Bureau of Labor Insurance.

For the year ended December 31, 2014 and 2013, the pension expense under defined contribution plan of the Bank and its subsidiaries amounted \$485,321 and \$405,099, respectively, and were contributed to the Bureau of Labor Insurance or labor agencies designated by local authorities in the case of overseas units.

(b) Employee benefits provision

Employee benefits provision recognized by the Bank in the balance sheet was as follows:

|                                                                          | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|--------------------------------------------------------------------------|--------------------------|--------------------------|
| Defined benefits plan                                                    | \$ 3,663,956             | 3,477,068                |
| Retiree deposits with favorable rates and other post-employment benefits | 224,895                  | 211,315                  |
| Total                                                                    | <u>\$ 3,888,851</u>      | <u>3,688,383</u>         |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(1) Defined benefits plan

The reconciliation between present value of the Bank's defined benefits obligation and fair value of defined benefits plan assets was as below:

|                                                    | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|----------------------------------------------------|--------------------------|--------------------------|
| Present value of defined benefits obligation       | \$ 9,034,812             | 8,594,323                |
| Less: Fair value of defined benefits plan assets   | (5,373,141)              | (5,117,255)              |
| Liability recognized in consolidated balance sheet | <u>\$ 3,661,671</u>      | <u>3,477,068</u>         |

The Bank's defined benefits plan contributes to designated depository account with Bank of Taiwan. Payments of pension benefits to employees who are covered by the Labor Standards Act are calculated based on the employee's average monthly salary for the last 6 months prior to approved retirement and base point (b.p.) entitlement based on years of service.

A. Components of plan assets

According to Regulations for Revenues, Expenditures Safeguard and Utilization of the Labor Retirement Fund, with regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statement shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Please refer to the website of Council of Labor Affairs for information on labor pension fund assets utilization including contribution rate and earnings rate provided by Bank of Taiwan and fund asset allocation provided by Council of Labor Affairs.

B. Expense recognized in profit and loss

For the year ended December 31, 2014 and 2013, expense recognized in profit and loss amounted to \$218,553 and \$230,239, respectively.

C. Movements in present value of the defined benefits obligation

The movements in present value of defined benefits obligation for the Bank for the year ended December 31, 2014 and 2013 were as follows:

|                                            | <u>For the year ended<br/>December 31, 2014</u> | <u>For the year ended<br/>December 31, 2013</u> |
|--------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Defined benefits obligation at January 1   | \$ 8,594,323                                    | 8,755,132                                       |
| Current service costs                      | 152,488                                         | 175,079                                         |
| Current interest cost                      | 163,292                                         | 131,327                                         |
| Payment                                    | (260,487)                                       | (490,498)                                       |
| Actuarial losses                           | 385,196                                         | 23,283                                          |
| Defined benefits obligation at December 31 | <u>\$ 9,034,812</u>                             | <u>8,594,323</u>                                |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**D. Movements in fair value of defined benefit plan assets**

The movements in fair value of defined benefit plan assets for the Bank for the year ended December 31, 2014 and 2013 were as follows:

|                                | <b>For the year ended<br/>December 31, 2014</b> | <b>For the year ended<br/>December 31, 2013</b> |
|--------------------------------|-------------------------------------------------|-------------------------------------------------|
| Plan assets at January 1       | \$ 5,117,255                                    | 5,072,635                                       |
| Contributions made             | 390,754                                         | 401,322                                         |
| Benefits paid by the plan      | (260,487)                                       | (490,498)                                       |
| Expected return on plan assets | 97,228                                          | 76,090                                          |
| Actuarial gains                | 28,391                                          | 57,706                                          |
| Plan assets at December 31     | <b>\$ 5,373,141</b>                             | <b>5,117,255</b>                                |

**E. Actuarial gains (losses) recognized in other comprehensive income**

Actuarial (losses) gains recognized by the Bank in the other comprehensive income for the year ended December 31, 2014 and 2013 were as follows:

|                                  | <b>For the year ended<br/>December 31, 2014</b> | <b>For the year ended<br/>December 31, 2013</b> |
|----------------------------------|-------------------------------------------------|-------------------------------------------------|
| Cumulative amount at January 1   | \$ (485,083)                                    | (519,506)                                       |
| Recognized during the period     | (359,091)                                       | 34,423                                          |
| Cumulative amount at December 31 | <b>\$ (844,174)</b>                             | <b>(485,083)</b>                                |

**F. Primary actuarial assumptions**

|                                                | <b>For the year ended<br/>December 31, 2014</b> | <b>For the year ended<br/>December 31, 2013</b> |
|------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Defined benefits plan discount rate            | 1.85%                                           | 1.90%                                           |
| Expected rate of return on plan assets         | 1.85%                                           | 1.90%                                           |
| Incremental rate of future compensation levels | 3.00%                                           | 3.00%                                           |

**G. Historical information for adjustment based on experience**

|                                                                          | <b>December 31,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> | <b>January 1,<br/>2012</b> |
|--------------------------------------------------------------------------|------------------------------|------------------------------|------------------------------|----------------------------|
| Present value of defined benefits obligation                             | \$ 9,034,812                 | 8,594,323                    | 8,755,132                    | 8,297,390                  |
| Net fair value of plan assets                                            | 5,373,141                    | 5,117,255                    | 5,072,635                    | 4,983,584                  |
| Net liability of defined benefits obligation                             | <b>\$ 3,661,671</b>          | <b>3,477,068</b>             | <b>3,682,497</b>             | <b>3,313,806</b>           |
| Adjustment based on experience to present value of defined benefits plan | <b>\$ 355,434</b>            | <b>284,044</b>               | <b>297,902</b>               | -                          |
| Adjustment based on experience to net fair value of plan assets          | <b>\$ (28,391)</b>           | <b>(57,706)</b>              | <b>42,298</b>                | -                          |
| Changes in actuarial assumptions of plan liability                       | <b>\$ 29,763</b>             | <b>(260,761)</b>             | <b>179,306</b>               | -                          |

**H. When computing the present value of defined benefits obligation, the Bank should ascertain and evaluate the actuarial assumptions on the balance sheet date, including the discount rate and future salary fluctuation. Any changes in actuarial assumptions can lead to a significant effect on the Bank's balance of defined benefits obligation.**

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The present value of the Bank's defined benefits obligation was \$9,034,812 for the period ended December 31, 2014. If the applied discount rate is increased or decreased at 0.25%, the present value of the Bank's defined benefits obligation would decrease \$147,105 or increase \$151,434, respectively.

(2) Retiree deposits with favorable rates and other post-employment benefits

The reconciliation between present value of the Bank's defined benefits obligation and fair value of defined benefits plan assets was as below:

|                                                  | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|--------------------------------------------------|--------------------------|--------------------------|
| Present value of defined benefits obligation     | \$ 224,895               | 211,315                  |
| Less: fair value of defined benefits plan assets | -                        | -                        |
| Liabilities recognized in balance sheet          | <u>\$ 224,895</u>        | <u>211,315</u>           |

The Bank's obligation to grant retirees—including current employees retiring in the future—fixed-amount deposits with favorable rates is based on the Bank's Regulations for Subsidizing the Retiree Benefits.

A. Expense recognized in profit and loss

For the year ended December 31, 2014 and 2013, expense recognized in profit and loss by the Bank amounted to \$21,642 and \$18,890, respectively.

B. Movements in present value of the defined benefits obligation

The movements in present value of defined benefits obligation for the Bank for the year ended December 31, 2014 and 2013 were as follows:

|                                            | <u>For the year ended<br/>December 31, 2014</u> | <u>For the year ended<br/>December 31, 2013</u> |
|--------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Defined benefits obligation at January 1   | \$ 211,315                                      | 209,997                                         |
| Current interest cost                      | 6,549                                           | 6,226                                           |
| Contributions made                         | (14,689)                                        | (13,363)                                        |
| Past service cost                          | 15,093                                          | 12,664                                          |
| Actuarial (gains) losses                   | 6,627                                           | (4,209)                                         |
| Defined benefits obligation at December 31 | <u>\$ 224,895</u>                               | <u>211,315</u>                                  |

C. Actuarial gains (losses) recognized in other comprehensive income

Actuarial (losses) gains recognized by the Bank in the other comprehensive income for the year ended December 31, 2014 and 2013 were as follows:

|                                  | <u>For the year ended<br/>December 31, 2014</u> | <u>For the year ended<br/>December 31, 2013</u> |
|----------------------------------|-------------------------------------------------|-------------------------------------------------|
| Cumulative amount at January 1   | \$ (35,088)                                     | (39,297)                                        |
| Recognized during the period     | (6,627)                                         | 4,209                                           |
| Cumulative amount at December 31 | <u>\$ (41,715)</u>                              | <u>(35,088)</u>                                 |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

D. Main actuarial assumptions

|                                                                                                                     | For the year ended<br>December 31, 2014        |                                       | For the year ended<br>December 31, 2013        |                                       |
|---------------------------------------------------------------------------------------------------------------------|------------------------------------------------|---------------------------------------|------------------------------------------------|---------------------------------------|
|                                                                                                                     | Favorable<br>rates<br>for employee<br>deposits | Other post-<br>employment<br>benefits | Favorable<br>rates<br>for employee<br>deposits | Other post-<br>employment<br>benefits |
| Discount rate                                                                                                       | 4.00%                                          | 2.125%                                | 4.00%                                          | 2.00%                                 |
| Expected rate of return on deposited fund                                                                           | 2.00%                                          | 2.125%                                | 2.00%                                          | 2.00%                                 |
| Yearly rate of decrease on account balance/utilization rate on subsidy for health examination and social networking | 1.15%                                          | 32%~70%                               | 1.50%                                          | 31%~69%                               |
| Probability of future changes in favorable rates deposits scheme                                                    | 50.00%                                         | - %                                   | 50.00%                                         | - %                                   |

E. Historical information for adjustment based on experience

|                                                                          | December<br>31, 2014 | December<br>31, 2013 | December<br>31, 2012 | January<br>1, 2012 |
|--------------------------------------------------------------------------|----------------------|----------------------|----------------------|--------------------|
| Present value of defined benefits obligation                             | \$ 224,895           | 211,315              | 209,997              | 157,131            |
| Net fair value of plan assets                                            | -                    | -                    | -                    | -                  |
| Net liability of defined benefits obligation                             | <u>\$ 224,895</u>    | <u>211,315</u>       | <u>209,997</u>       | <u>157,131</u>     |
| Adjustment based on experience to present value of defined benefits plan | <u>\$ (1,103)</u>    | <u>2,904</u>         | <u>39,297</u>        | <u>-</u>           |
| Adjustment based on experience to net fair value of plan assets          | <u>\$ -</u>          | <u>-</u>             | <u>-</u>             | <u>-</u>           |

F. When computing the present value of defined benefits obligation, the Bank should ascertain and evaluate the actuarial assumptions on the balance sheet date, including the discount rate and future salary fluctuation. Any changes in actuarial assumptions can lead to a significant effect on the Bank's balance of defined benefits obligation.

The present value of the Bank's employee deposits with favorable rates and other post-employment benefits were \$224,895 for the period ended December 31, 2014. If the applied discount rate is increased or decreased at 0.25%, the present value of the Bank's defined benefits obligation would decrease \$6,570 or increase \$7,202, respectively.

(3) Defined benefits plan of overseas branches and subsidiaries

Defined benefits plan of overseas branches and subsidiaries recognized in balance sheets were as below:

|                       | December 31, 2014 | December 31, 2013 |
|-----------------------|-------------------|-------------------|
| Defined benefits plan | \$ 260,129        | 137,447           |

For the year ended December 31, 2014 and 2013, expense recognized by overseas units and subsidiaries in profit and loss amounted to \$119,562 and \$89,303, respectively.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For the year ended December 31, 2014 and 2013, actuarial gains (losses) recognized by overseas subsidiaries in other comprehensive income amounted to \$44,992 and (\$38,446), respectively.

(AB) Income tax

(a) Income tax

For the year ended December 31, 2014 and 2013, the income tax (expenses) benefits and related accounts were as follows:

|                                | <b>For the year ended December 31</b> |                |
|--------------------------------|---------------------------------------|----------------|
|                                | <b>2014</b>                           | <b>2013</b>    |
| Current income tax expenses    | \$ (5,471,030)                        | (3,318,485)    |
| Deferred income tax expenses   | 281,046                               | 3,421,405      |
| Income tax (expenses) benefits | <b>\$ (5,189,984)</b>                 | <b>102,920</b> |

For the year ended December 31, 2014 and 2013, the income tax (expenses) benefits recognized under other comprehensive income were as follows:

|                                                                              | <b>For the year ended December 31</b> |                |
|------------------------------------------------------------------------------|---------------------------------------|----------------|
|                                                                              | <b>2014</b>                           | <b>2013</b>    |
| Exchange differences of overseas subsidiaries' financial reports translation | \$ 125,354                            | 213,346        |
| Unrealized Losses on Available-for-sale financial assets                     | 142,984                               | -              |
| Actuarial gains on defined benefit plans                                     | 61,045                                | (6,567)        |
| Total                                                                        | <b>\$ 329,383</b>                     | <b>206,779</b> |

The reconciliations of income tax (expenses) benefits and net income before tax were as below:

|                                                 | <b>For the year ended<br/>December 31, 2014</b> | <b>For the year ended<br/>December 31, 2013</b> |
|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Net income                                      | \$ 34,268,479                                   | 18,792,425                                      |
| Income tax (expenses) benefits                  | (5,189,984)                                     | 102,920                                         |
| Net income before income tax                    | 39,458,463                                      | 18,689,505                                      |
| Straight income tax                             | (8,331,002)                                     | (3,974,177)                                     |
| Effects of foreign and domestic tax rate spread | (51,417)                                        | (243,408)                                       |
| Tax-exempt income                               | 4,282,705                                       | 1,236,218                                       |
| Adjustments of prior year's income tax          | (1,113,933)                                     | (37,850)                                        |
| Others                                          | 23,663                                          | 3,122,137                                       |
| Total                                           | <b>\$ (5,189,984)</b>                           | <b>102,920</b>                                  |

(b) Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

The movements of deferred tax assets and liabilities for the year ended December 31, 2014 and 2013 were as follows:



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

| For the year ended December 31, 2014                                                                              |                     |                              |                                         |                  |                  |
|-------------------------------------------------------------------------------------------------------------------|---------------------|------------------------------|-----------------------------------------|------------------|------------------|
|                                                                                                                   | Beginning Balance   | Recognize in profit and loss | Recognize in other comprehensive income | Others (Note)    | Ending Balance   |
| Temporary difference                                                                                              |                     |                              |                                         |                  |                  |
| Proportion of (gains) losses recognized from the investments in associates and joint ventures under equity method | \$ 113,563          | (70,829)                     | -                                       | -                | 42,734           |
| Unrealized losses (gains) on foreign exchange and derivative financial instruments                                | (762)               | 289,978                      | -                                       | (91,869)         | 197,347          |
| Allowance for credit losses                                                                                       | 1,367,281           | 260,682                      | -                                       | 745,148          | 2,373,111        |
| Unrealized (gains) losses on available for sale financial assets                                                  | -                   | (5,236)                      | 142,984                                 | (472,619)        | (334,871)        |
| Impairment losses on assets                                                                                       | 10,543              | 1,772                        | -                                       | -                | 12,315           |
| Employee benefits liability                                                                                       | 559,516             | (123,705)                    | -                                       | 317,313          | 753,124          |
| Settlement compensation provision                                                                                 | 174,671             | (11,308)                     | -                                       | -                | 163,363          |
| Exchange differences of overseas subsidiaries' financial reports translation                                      | 635,338             | -                            | 125,354                                 | 2                | 760,694          |
| Defined benefit plan actuarial (gains) losses                                                                     | 88,430              | -                            | 61,045                                  | (149,475)        | -                |
| Loss carryforward and others                                                                                      | 2,690,451           | (60,308)                     | -                                       | 1,698,758        | 4,328,901        |
| <b>Deferred tax assets (liabilities)- net</b>                                                                     | <b>\$ 5,639,031</b> | <b>281,046</b>               | <b>329,383</b>                          | <b>2,047,258</b> | <b>8,296,718</b> |
| Information disclosed in balance sheet :                                                                          |                     |                              |                                         |                  |                  |
| Deferred income tax assets- net                                                                                   | \$ 5,911,307        |                              |                                         |                  | 9,181,473        |
| Deferred tax liabilities                                                                                          | (272,276)           |                              |                                         |                  | (884,755)        |
| <b>Total</b>                                                                                                      | <b>\$ 5,639,031</b> |                              |                                         |                  | <b>8,296,718</b> |

Note: The transfer-in amount resulting from the acquisition of The Tokyo Star Bank, Ltd. was included.

| For the year ended December 31, 2013                                                                              |                     |                              |                                         |              |                  |
|-------------------------------------------------------------------------------------------------------------------|---------------------|------------------------------|-----------------------------------------|--------------|------------------|
|                                                                                                                   | Beginning Balance   | Recognize in profit and loss | Recognize in other comprehensive income | Others       | Ending Balance   |
| Temporary difference                                                                                              |                     |                              |                                         |              |                  |
| Proportion of (gains) losses recognized from the investments in associates and joint ventures under equity method | \$ 647,795          | (534,232)                    | -                                       | -            | 113,563          |
| Provision for foreign investment losses                                                                           | (365,277)           | 365,277                      | -                                       | -            | -                |
| Unrealized (gains) losses on foreign exchange and derivative financial instruments                                | 41,264              | (36,286)                     | -                                       | (5,740)      | (762)            |
| Allowance for credit losses                                                                                       | 792,808             | 560,258                      | -                                       | 14,215       | 1,367,281        |
| Foreclosed properties                                                                                             | 197                 | (197)                        | -                                       | -            | -                |
| Impairment losses on assets                                                                                       | 9,203               | 1,340                        | -                                       | -            | 10,543           |
| Employee benefits liability                                                                                       | 566,727             | (30,045)                     | -                                       | 22,834       | 559,516          |
| Settlement compensation provision                                                                                 | 186,570             | (11,899)                     | -                                       | -            | 174,671          |
| Exchange differences of overseas subsidiaries' financial reports translation                                      | 421,992             | -                            | 213,346                                 | -            | 635,338          |
| Defined benefit plan actuarial (gains) losses                                                                     | 94,997              | -                            | (6,567)                                 | -            | 88,430           |
| Loss carryforward and others                                                                                      | (389,180)           | 3,107,189                    | -                                       | (27,558)     | 2,690,451        |
| <b>Deferred tax assets (liabilities)- net</b>                                                                     | <b>\$ 2,007,096</b> | <b>3,421,405</b>             | <b>206,779</b>                          | <b>3,751</b> | <b>5,639,031</b> |
| Information disclosed in balance sheet :                                                                          |                     |                              |                                         |              |                  |
| Deferred income tax assets- net                                                                                   | \$ 2,648,876        |                              |                                         |              | 5,911,307        |
| Deferred tax liabilities                                                                                          | (641,780)           |                              |                                         |              | (272,276)        |
| <b>Total</b>                                                                                                      | <b>\$ 2,007,096</b> |                              |                                         |              | <b>5,639,031</b> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (c) The Bank's income tax returns examination, application for reexamination, and appeal are as below:

|                                | <u>Latest year of<br/>examination</u> |                                                                                         |
|--------------------------------|---------------------------------------|-----------------------------------------------------------------------------------------|
| CTBC Bank Co., Ltd.            | 2009                                  |                                                                                         |
| Chinatrust Bills Finance Corp. | 2008                                  |                                                                                         |
|                                | <u>Year</u>                           | <u>Re-examination</u>                                                                   |
| CTBC Bank Co., Ltd.            | 2007                                  | Amortization of goodwill and interest income                                            |
|                                | 2008                                  | Amortization of goodwill and tax credits prescribed in Statute for Upgrading Industries |
| Chinatrust Bills Finance Corp. | 2007                                  | Interest income                                                                         |
|                                | <u>Year</u>                           | <u>Appeal</u>                                                                           |
| CTBC Bank Co., Ltd.            | 2004                                  | Interest income                                                                         |
|                                | 2005                                  | Interest income                                                                         |
|                                | 2006                                  | Interest income and other expenses                                                      |
| Chinatrust Bills Finance Corp. | 2005~2006                             | Interest income                                                                         |

(AC) Imputation credit account

|                                                   | <u>December 31, 2014</u>                        | <u>December 31, 2013</u>                        |
|---------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| (a) Imputation credit account balance             | <u>\$ 92</u>                                    | <u>115,820</u>                                  |
| (b) Tax deduction ratio for earnings distribution |                                                 |                                                 |
|                                                   | <u>For the year ended<br/>December 31, 2013</u> | <u>For the year ended<br/>December 31, 2012</u> |
| Cash dividends                                    | <u>- %</u>                                      | <u>0.82%</u>                                    |
| Stock dividends                                   | <u>1.29%</u>                                    | <u>0.82%</u>                                    |

All the ending balance of undistributed earnings incurred after 1998.

- (c) The above imputation calculation is in accordance with Tax Ruling No. 10204562810 issued by the Ministry of Finance, R.O.C. on October 17, 2013.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AD) Capital stock, capital surplus, and other equity interest

(a) Capital stock

As of December 31, 2014, the Bank's authorized capital was \$100,000,000, representing 10,000,000 thousand common shares with par value at NTD 10 per share, and paid-in capital for common stock was \$91,092,775, with 9,109,278 thousand common shares issued.

On May 24, 2013, the Bank's board of directors, on behalf of stockholders, decided a capital increase of 325,152 thousand shares from retained earnings which amounted to \$3,251,521, with August 6, 2013 as its baseline for capital increase.

On May 12, 2014, the Bank's board of directors, on behalf of stockholders, decided a capital increase of 646,988 thousand shares from retained earnings which amounted to \$6,469,878, with August 28, 2014 as its baseline for capital increase.

On January 22, 2014, the Bank's board of directors, on behalf of stockholders, decided a cash capital increase of 600,000 thousand common shares, par value NTD 10 per share, with the price of private placement at NTD 25 per share. The total amount raised was \$15 billion, with May 13, 2014 as its baseline for capital increase.

(b) Capital surplus

The components and sources of capital surplus were as follows:

|                                  | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|----------------------------------|--------------------------|--------------------------|
| Additional paid-in capital—stock | \$ 25,000,568            | 16,000,568               |
| Share-based payment transactions | 1,184,264                | 1,184,264                |
| Others                           | (2,773)                  | (2,773)                  |
| Total                            | <u>\$ 26,182,059</u>     | <u>17,182,059</u>        |

In compliance with the Company Act, capital surplus can only be used to offset a deficit when surplus reserve is not sufficient to offset losses or to be distributed by issuing new shares or by cash pursuant to a resolution to be adopted by a shareholders' meeting as required in Article 241, Paragraph 1 of the Company Act. Furthermore, according to Article 72-1, Paragraph 1 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the amount of capital surplus to be used to increase capital shall not exceed 10% of total paid-in capital. The capital surplus arising from a capital increase can be capitalized only in the following fiscal year after being registered by the company with the competent authority for approval.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(c) Other equity interest

Changes in the Bank's other equity interest were as below:

|                                                                                       | Unrealized<br>(losses) gains on<br>available-for-sale<br>financial assets | Exchange<br>differences of<br>overseas<br>subsidiaries'<br>financial reports<br>translation | Others         | Total              |
|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|----------------|--------------------|
| January 1, 2014                                                                       | \$ (489,806)                                                              | (4,119,096)                                                                                 | -              | (4,608,902)        |
| Available-for-sale financial assets                                                   |                                                                           |                                                                                             |                |                    |
| — net                                                                                 |                                                                           |                                                                                             |                |                    |
| — Valuation adjustment                                                                | 1,322,484                                                                 | -                                                                                           | -              | 1,322,484          |
| — Realized amount                                                                     | (1,651,904)                                                               | -                                                                                           | -              | (1,651,904)        |
| Foreign currency translation difference                                               |                                                                           |                                                                                             |                |                    |
| — Exchange difference                                                                 | -                                                                         | (235,881)                                                                                   | -              | (235,881)          |
| — Gains on effective hedging instrument                                               | -                                                                         | 817,861                                                                                     | -              | 817,861            |
| Proportionate share of other comprehensive income from associates under equity method |                                                                           |                                                                                             |                |                    |
| — Recognized amount                                                                   | 43,590                                                                    | -                                                                                           | -              | 43,590             |
| Others                                                                                | -                                                                         | -                                                                                           | 464,012        | 464,012            |
| December 31, 2014                                                                     | <u>\$ (775,636)</u>                                                       | <u>(3,537,116)</u>                                                                          | <u>464,012</u> | <u>(3,848,740)</u> |

|                                                                                       | Unrealized<br>(losses) gains on<br>available-for-sale<br>financial assets | Exchange differences<br>of overseas<br>subsidiaries' financial<br>reports translation | Total              |
|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------|---------------------------------------------------------------------------------------|--------------------|
| January 1, 2013                                                                       | \$ (94,351)                                                               | (3,397,351)                                                                           | (3,491,702)        |
| Available-for-sale financial assets                                                   |                                                                           |                                                                                       |                    |
| — net                                                                                 |                                                                           |                                                                                       |                    |
| — Valuation adjustment                                                                | 1,066,587                                                                 | -                                                                                     | 1,066,587          |
| — Realized amount                                                                     | (1,396,024)                                                               | -                                                                                     | (1,396,024)        |
| Foreign currency translation difference                                               |                                                                           |                                                                                       |                    |
| — Exchange difference                                                                 | -                                                                         | (484,830)                                                                             | (484,830)          |
| — Gains on effective hedging instrument                                               | -                                                                         | (236,915)                                                                             | (236,915)          |
| Proportionate share of other comprehensive income from associates under equity method |                                                                           |                                                                                       |                    |
| — Recognized amount                                                                   | (66,018)                                                                  | -                                                                                     | (66,018)           |
| December 31, 2013                                                                     | <u>\$ (489,806)</u>                                                       | <u>(4,119,096)</u>                                                                    | <u>(4,608,902)</u> |

(AE) Earnings distribution and dividend policy

As a subsidiary of CTBC Financial Holding Co., Ltd., the Bank is required to fulfill the operating fund demands of the parent company and to maintain its own capital adequacy ratio. Therefore, common stock dividends and bonuses are generally distributed as cash dividends. The Bank adopts a constant and balanced dividend policy through annual common stock dividends and distribution of bonuses.

The above-mentioned methodology is merely a guideline used to select an appropriate dividend policy. In consideration of current operations and capital budget planning for the next year, an appropriate dividend distribution ratio is selected.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Annual earnings, if any, are used to pay taxes, to make certain adjustments in accordance with financial accounting standards, and to offset cumulative losses. Then 30% of the remaining earnings are appropriated as legal reserve and set provision for or reversal of special reserve according to the regulations. The 0.01% to 0.05% of remaining balance is set as employee bonuses. Subsequent to all appropriations aforesaid, the remaining balance and the undistributed earnings at the beginning period should report to the board of directors for the discussion of dividend distribution ahead of seeking approval from shareholders. Before the legal reserve balance reaches an amount equal to total paid-in capital, cash dividends are limited to 15% of total paid-in capital. When the legal reserve balance reaches an amount equal to total paid-in capital, or satisfies the Article 50, paragraph 2 of the Banking Law, if the bank is sound in both its finance and business operations and has set aside legal reserve in compliance with the Company Act, the restrictions stipulated in the preceding paragraph shall not apply.

Distribution of employee bonuses and the percentage actually distributed within the range of appropriation mentioned previously are subject to resolutions by the board of directors.

A resolution on 2012 earnings distribution of the Bank was approved by the board of directors on behalf of shareholders on May 24, 2013, and the cash dividend, capital increase through capitalization of retained earnings, and employee bonuses were distributed, amounting to \$11,304,952, \$3,251,521, and \$6,440, respectively. However, the distribution of employee bonuses which was disclosed in the annual financial report of 2012 amounted to \$6,440. The difference amounting to \$198 NT dollars was regarded as a change in accounting estimate and recognized in profit and loss of year 2013.

A resolution on 2013 earnings distribution of the Bank was approved by the board of directors on behalf of shareholders on May 12, 2014, and stock dividend and employee bonuses were distributed, amounting to \$6,469,878 and \$3,235, respectively. Nevertheless, the estimate of employee bonuses recognized in the annual financial report of 2013 was \$3,218, with \$17 difference. The difference is regarded as a change of accounting estimates and will reflect as a loss in the fiscal year of 2014.

For year ended December 31, 2014, employee bonuses were estimated amounting to \$4,973. Estimation of the fair value of employee bonuses is recognized as current-period operating expenses based on the Bank's net income after tax minus an appropriate reserve at the end of the accounting period multiplied by the most appropriate estimate set by the Bank's articles of incorporation. However, if later the actual allocation amount pursuant to a resolution of the Bank's board of directors on behalf of stockholders is different from the estimated number, the difference would be recognized in the profit or loss of the next year.

Relevant information about employee bonuses approved by the board of directors on behalf of stockholders is available on Market Observation Post System or other sites.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AF) Share based payment transactions

For the year ended December, 2014 and 2013, the Bank and its subsidiaries had set out the measurement principles and specific requirements for the share-based payment transactions as below:

| <b>Management stock appreciation rights plan for the years</b> |                        |             |             |             |
|----------------------------------------------------------------|------------------------|-------------|-------------|-------------|
|                                                                | <b>2010</b>            | <b>2011</b> | <b>2012</b> | <b>2013</b> |
| Grant date                                                     | 01.26.2011             | 01.13.2012  | 02.05.2013  | 01.28.2014  |
| Grant number                                                   | 100,445                | 93,583      | 139,469     | 192,606     |
| Exercise period                                                | 01.01.2013~ 12.31.2013 | 12.31.2014  | 12.31.2015  | 12.31.2016  |
| Exercise price at grant date                                   | 23.63                  | 19.05       | 16.69       | 20.07       |

The Bank and its subsidiaries implement the above plan via cash settlements, yet absentee and resigned employees' stock appreciation rights will be deemed abandoned and forfeited.

Disclosures for the Bank and its subsidiaries' Employee Stock Appreciation Rights Plan (SARs):

| <b>For the year ended December 31, 2014</b>                    |               |                                        |               |                                        |               |                                        |
|----------------------------------------------------------------|---------------|----------------------------------------|---------------|----------------------------------------|---------------|----------------------------------------|
| <b>Management stock appreciation rights plan for the years</b> |               |                                        |               |                                        |               |                                        |
|                                                                | <b>2011</b>   |                                        | <b>2012</b>   |                                        | <b>2013</b>   |                                        |
|                                                                | <b>Number</b> | <b>Weighted-average exercise price</b> | <b>Number</b> | <b>Weighted-average exercise price</b> | <b>Number</b> | <b>Weighted-average exercise price</b> |
| Outstanding at the beginning of the period                     | 105,417       | 14.23                                  | 151,703       | 14.02                                  | 192,606       | 18.99                                  |
| Granted during the period                                      | 6,054         | 14.23                                  | 8,576         | 14.02                                  | 10,925        | 18.99                                  |
| Forfeited during the period                                    | 1,128         | 14.23                                  | 1,783         | 14.02                                  | 3,020         | 18.99                                  |
| Exercised during the period                                    | 110,343       | 14.23                                  | 801           | 14.02                                  | 667           | 18.99                                  |
| Expired during the period                                      | -             | 14.23                                  | -             | 14.02                                  | -             | 18.99                                  |
| Outstanding at the end of the period                           | -             | 14.23                                  | 157,695       | 14.02                                  | 199,844       | 18.99                                  |
| Exercisable at the end of the period                           | -             | 14.23                                  | -             | 14.02                                  | -             | 18.99                                  |

| <b>For the year ended December 31, 2013</b>                    |               |                                        |               |                                        |               |                                        |
|----------------------------------------------------------------|---------------|----------------------------------------|---------------|----------------------------------------|---------------|----------------------------------------|
| <b>Management stock appreciation rights plan for the years</b> |               |                                        |               |                                        |               |                                        |
|                                                                | <b>2010</b>   |                                        | <b>2011</b>   |                                        | <b>2012</b>   |                                        |
|                                                                | <b>Number</b> | <b>Weighted-average exercise price</b> | <b>Number</b> | <b>Weighted-average exercise price</b> | <b>Number</b> | <b>Weighted-average exercise price</b> |
| Outstanding at the beginning of the period                     | 109,640       | 16.93                                  | 98,654        | 15.04                                  | 139,469       | 14.82                                  |
| Granted during the period                                      | 12,356        | 16.93                                  | 12,410        | 15.04                                  | 17,606        | 14.82                                  |
| Forfeited during the period                                    | 1,591         | 16.93                                  | 1,872         | 15.04                                  | 1,375         | 14.82                                  |
| Exercised during the period                                    | 120,405       | 16.93                                  | 3,775         | 15.04                                  | 3,997         | 14.82                                  |
| Expired during the period                                      | -             | 16.93                                  | -             | 15.04                                  | -             | 14.82                                  |
| Outstanding at the end of the period                           | -             | 16.93                                  | 105,417       | 15.04                                  | 151,703       | 14.82                                  |
| Exercisable at the end of the period                           | -             | 16.93                                  | -             | 15.04                                  | -             | 14.82                                  |

For the year ended December 31, 2014, the weighted-average stock prices executed under SARs for 2011, 2012 and 2013 were \$20.84, \$19.50 and \$20.26, respectively.

Up to December 31, 2014, the weighted-average remaining durations of outstanding shares under SARs for 2012 and 2013 were 1 and 2 years, respectively.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

On January 27, 2015, the Bank's board of directors have passed Management Stock Appreciation Rights Plan for the Year 2014. 222,120 units of share based payment have been granted, with the execution price of \$20.35. On the execution date of December 31, 2017, the plan is intended to be settled through cash payments.

**(AG) EPS**

|                                                                    | <b>For the year ended December 31</b> |                   |
|--------------------------------------------------------------------|---------------------------------------|-------------------|
|                                                                    | <b>2014</b>                           | <b>2013</b>       |
| Net income attributable to common stockholders                     | <b>\$ 34,262,178</b>                  | <b>18,784,906</b> |
| Weighted-average outstanding shares of common stock (in thousands) | <b>8,875,701</b>                      | <b>8,463,404</b>  |
| Basic EPS (in dollars)                                             | <b>\$ 3.86</b>                        | <b>2.22</b>       |

Retroactive adjustments are applied to the Bank's basic EPS for the year ended December 31, 2013.

Since the Bank and its subsidiaries deal with share-based payment transactions via cash settlement, no impact is expected to be on its weighted-average outstanding shares, nor does the diluted EPS needed to be calculated.

**(AH) Net interest income**

|                                        | <b>For the year ended December 31</b> |                   |
|----------------------------------------|---------------------------------------|-------------------|
|                                        | <b>2014</b>                           | <b>2013</b>       |
| <b><u>Interest income</u></b>          |                                       |                   |
| Loan                                   | \$ 42,588,761                         | 31,985,091        |
| Revolving credit                       | 2,835,373                             | 2,750,316         |
| Securities                             | 4,933,622                             | 3,716,612         |
| Due from Central Bank                  | 334,353                               | 285,270           |
| Due from banks and call loans to banks | 4,157,541                             | 992,394           |
| Hedging derivatives                    | 1,048,357                             | 1,041,146         |
| Others                                 | 2,930,247                             | 1,939,451         |
| Subtotal                               | <b>58,828,254</b>                     | <b>42,710,280</b> |
| <b><u>Interest expense</u></b>         |                                       |                   |
| Deposit                                | 16,229,373                            | 11,256,501        |
| Due to other banks                     | 366,150                               | 271,992           |
| Borrowings and other financing         | 3,339,747                             | 2,567,715         |
| Hedging derivatives                    | 276,064                               | 290,476           |
| Others                                 | 357,093                               | 17,450            |
| Subtotal                               | <b>20,568,427</b>                     | <b>14,404,134</b> |
|                                        | <b>\$ 38,259,827</b>                  | <b>28,306,146</b> |

Interest income and expense from financial assets and liabilities measured at fair value through profit and loss are excluded.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AI) Service fee and commission income

|                                   | <b>For the year ended December 31</b> |                   |
|-----------------------------------|---------------------------------------|-------------------|
|                                   | <b>2014</b>                           | <b>2013</b>       |
| <b><u>Commission income</u></b>   |                                       |                   |
| Credit card business              | \$ 4,802,392                          | 4,715,525         |
| Wealth management business        | 12,034,887                            | 10,698,723        |
| Corporate business                | 3,663,840                             | 2,742,810         |
| Banking business                  | 4,022,140                             | 3,133,320         |
| Insurance business                | 246,615                               | -                 |
| Lottery business                  | 5,359,550                             | 5,007,165         |
| Others                            | 7,798                                 | 28,470            |
| Total commission income           | 30,137,222                            | 26,326,013        |
| <b><u>Service fee</u></b>         |                                       |                   |
| Credit card business              | (224,636)                             | (185,848)         |
| Wealth management business        | (278,919)                             | (297,264)         |
| Corporate business                | (246,185)                             | (197,911)         |
| Banking business                  | (1,413,264)                           | (736,425)         |
| Lottery business                  | (402,742)                             | (365,060)         |
| Others                            | (17,345)                              | (8,860)           |
| Total service fee                 | (2,583,091)                           | (1,791,368)       |
| Service fee and commission income | <b>\$ 27,554,131</b>                  | <b>24,534,645</b> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AJ) Gains and losses on financial assets or liabilities measured at fair value through profit or loss

|                                        | <b>For the year ended December 31</b> |                  |
|----------------------------------------|---------------------------------------|------------------|
|                                        | <b>2014</b>                           | <b>2013</b>      |
| <b><u>Disposal gains (losses)</u></b>  |                                       |                  |
| Commercial paper                       | \$ 6,143                              | 6,194            |
| Treasury bills                         | 241                                   | 187              |
| Government bonds                       | (79,217)                              | 63,793           |
| Corporate bonds                        | 20,070                                | (284)            |
| Financial debentures                   | 36,190                                | 53,899           |
| Convertible bonds                      | 9,569                                 | 24,821           |
| Beneficiary certificates               | (51)                                  | (3,288)          |
| Asset-backed commercial paper          | 259                                   | 1,012            |
| Listed and OTC securities              | 219,012                               | (28,168)         |
| Other securities and bonds             | 768                                   | 1,299            |
| Derivative financial instruments       | 5,265,505                             | 4,252,515        |
| Borrowed securities                    | (10,205)                              | 10,497           |
| Subtotal                               | 5,468,284                             | 4,382,477        |
| <b><u>Valuation gains (losses)</u></b> |                                       |                  |
| Commercial paper                       | 4,114                                 | (1,838)          |
| Treasury bills                         | (234)                                 | 841              |
| Government bonds                       | 38,882                                | (12,602)         |
| Corporate bonds                        | (14,232)                              | (278)            |
| Financial debentures                   | 2,601,584                             | 759,131          |
| Convertible bonds                      | 56,792                                | 214,451          |
| Asset-backed commercial paper          | (50)                                  | (770)            |
| Listed and OTC securities              | (79,553)                              | 71,889           |
| Other securities and bonds             | (31,944)                              | -                |
| Derivative financial instruments       | 3,503,342                             | 259,991          |
| Beneficiary certificates               | 17,946                                | 4                |
| Borrowed securities                    | 72                                    | 975              |
| Fair value hedge adjustment            | (658,334)                             | (788,408)        |
| Subtotal                               | 5,438,385                             | 503,386          |
| <b><u>Dividend income</u></b>          | 13,241                                | 8,690            |
| <b><u>Interest income</u></b>          | 557,735                               | 486,240          |
| <b><u>Interest expense</u></b>         | (185,457)                             | -                |
| <b>Total</b>                           | <b>\$ 11,292,188</b>                  | <b>5,380,793</b> |

(AK) Realized gains on available-for-sale financial assets

|                           | <b>For the year ended December 31</b> |                  |
|---------------------------|---------------------------------------|------------------|
|                           | <b>2014</b>                           | <b>2013</b>      |
| Government bonds          | \$ 526,617                            | 109,898          |
| Corporate bonds           | 64,765                                | (913)            |
| Financial debentures      | 8,126                                 | 5,833            |
| Listed and OTC securities | 645,442                               | 1,273,752        |
| Asset-backed securities   | 209,685                               | -                |
| Beneficiary certificates  | 193,942                               | 147              |
| others                    | 3,327                                 | 7,307            |
| <b>Total</b>              | <b>\$ 1,651,904</b>                   | <b>1,396,024</b> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AL) Impairment loss

|                                                                          | For the year ended December 31 |               |
|--------------------------------------------------------------------------|--------------------------------|---------------|
|                                                                          | 2014                           | 2013          |
| Impairment loss provisioned — premises and equipment                     | \$ 30,675                      | 22,232        |
| Impairment loss provisioned — other assets                               |                                |               |
| Foreclosed properties                                                    | 6,248                          | 6,710         |
| Gains on reversal of impairment loss — held-to-maturity financial assets | (8,355)                        | -             |
| Total                                                                    | <u>\$ 28,568</u>               | <u>28,942</u> |

(AM) Other net non-interest income

|                                                                                       | For the year ended December 31 |                |
|---------------------------------------------------------------------------------------|--------------------------------|----------------|
|                                                                                       | 2014                           | 2013           |
| Excessive recognition of income in the previous reporting period                      | \$ 122,458                     | 311,227        |
| Rental income                                                                         | 155,868                        | 140,911        |
| Loan breach penalty income                                                            | 87,148                         | 81,223         |
| Cash dividend income                                                                  | 133,218                        | 103,430        |
| Directors and supervisors remuneration                                                | 3,899                          | 2,512          |
| Gains on disposal of investments under cost method                                    | -                              | 11,086         |
| Net losses on disposal of foreclosed properties                                       | (1,673)                        | (29,657)       |
| Promotion and commission fee                                                          | (23,424)                       | (13,511)       |
| Net losses on disposal and retirement of premises and equipment and intangible assets | (4,715)                        | (28,127)       |
| Others                                                                                | 724,840                        | 333,719        |
| Total                                                                                 | <u>\$ 1,197,619</u>            | <u>912,813</u> |

(AN) Provisions for bad debt expenses and guarantee reserve

|                                                                  | For the year ended December 31 |                  |
|------------------------------------------------------------------|--------------------------------|------------------|
|                                                                  | 2014                           | 2013             |
| Provisions for bad debt expenses — loans and non-accrual loans   | \$ 3,268,029                   | 5,867,102        |
| Reversal of bad debt expenses — credit card                      | (519,061)                      | (672,913)        |
| Provisions for bad debt expenses — receivables                   | 278,099                        | 832,367          |
| (Reversal ) Provision for bad debt expenses — guarantee reserves | (107,115)                      | 2,435            |
| Provisions for bad debt expenses — short-term advances           | 96,170                         | 147,628          |
| Provisions for bad debt expenses — others                        | 21,855                         | 2,200            |
| Total                                                            | <u>\$ 3,037,977</u>            | <u>6,178,819</u> |

(AO) Employee benefits expenses

|                                  | For the year ended December 31 |                   |
|----------------------------------|--------------------------------|-------------------|
|                                  | 2014                           | 2013              |
| Salary expenses                  | \$ 19,685,846                  | 16,446,215        |
| Insurance expenses               | 1,352,025                      | 1,046,277         |
| Share based payment transactions | 973,847                        | 996,736           |
| Retirement expenses              |                                |                   |
| Defined contribution plan        | 485,321                        | 405,099           |
| Defined benefits plan            | 359,757                        | 338,432           |
| Other personnel expenses         | 1,281,889                      | 1,062,684         |
| Total                            | <u>\$ 24,138,685</u>           | <u>20,295,443</u> |

As of December 31, 2014 and 2013, numbers of the Bank's employees were 13,201 and 11,413, respectively.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AP) Depreciation and amortization expenses

|                                      | <b>For the year ended December 31</b> |                  |
|--------------------------------------|---------------------------------------|------------------|
|                                      | <b>2014</b>                           | <b>2013</b>      |
| Housing                              | \$ 545,225                            | 505,101          |
| General equipment                    | 288,949                               | 263,252          |
| Transportation equipment             | 30,426                                | 32,735           |
| Information equipment                | 473,178                               | 391,808          |
| Subtotal of depreciation expenses    | 1,337,778                             | 1,192,896        |
| Amortization of information software | 730,115                               | 584,213          |
| Bond issuance expenses and others    | 17,872                                | 16,906           |
| Total                                | <b>\$ 2,085,765</b>                   | <b>1,794,015</b> |

(AQ) Other general and administrative expenses

|                                           | <b>For the year ended December 31</b> |                   |
|-------------------------------------------|---------------------------------------|-------------------|
|                                           | <b>2014</b>                           | <b>2013</b>       |
| Site usage and general equipment expenses | \$ 4,111,176                          | 3,249,183         |
| Information equipment expenses            | 1,460,806                             | 1,310,807         |
| General administration expenses           | 3,802,110                             | 2,568,688         |
| Marketing and promotion expenses          | 2,563,938                             | 1,451,583         |
| Other expenses                            | 4,693,626                             | 3,878,693         |
| Business tax                              | 2,297,463                             | 1,383,381         |
| Total                                     | <b>\$ 18,929,119</b>                  | <b>13,842,335</b> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(AR) Financial instruments

(a) Fair value of financial instruments

| <b>Financial assets</b>                                        | <b>December 31, 2014</b> |                   |
|----------------------------------------------------------------|--------------------------|-------------------|
|                                                                | <b>Book value</b>        | <b>Fair value</b> |
| <b>Non-Derivative Financial Instruments</b>                    |                          |                   |
| Cash and cash equivalents                                      | \$ 109,030,099           | 109,030,099       |
| Due from Central Bank and call loans to bank                   | 274,292,402              | 274,292,402       |
| Financial assets measured at fair value through profit or loss | 50,690,534               | 50,690,534        |
| Available-for-sale financial assets — net                      | 549,295,636              | 549,295,636       |
| Securities sold under repurchase agreements                    | 2,774,393                | 2,774,393         |
| Receivables — net                                              | 175,832,305              | 175,832,305       |
| Current income taxes assets                                    | 946,049                  | 946,049           |
| Loans — net                                                    | 1,820,196,154            | 1,820,196,154     |
| Held-to-maturity financial assets — net                        | 70,704,773               | 70,656,135        |
| Other financial assets — net                                   | 20,725,575               | 20,703,499        |
| <b>Derivative Financial Instruments</b>                        |                          |                   |
| Trading purpose                                                |                          |                   |
| Forwards                                                       | 1,175,447                | 1,175,447         |
| Non-delivery forwards                                          | 1,863,592                | 1,863,592         |
| Currency swaps                                                 | 20,676,640               | 20,676,640        |
| Cross currency swaps                                           | 1,325,241                | 1,325,241         |
| Interest rate swaps                                            | 8,953,980                | 8,953,980         |
| Options                                                        | 23,531,689               | 23,531,689        |
| Asset swaps                                                    | 139,338                  | 139,338           |
| Credit default swaps                                           | 13,994                   | 13,994            |
| Commodity futures                                              | 572                      | 572               |
| Commodity swaps                                                | 24,034                   | 24,034            |
| Equity index futures                                           | 4,875                    | 4,875             |
| Bond Forwards                                                  | 318                      | 318               |
| Derivative financial assets — hedging                          | 1,499,486                | 1,499,486         |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

| <b>Financial liabilities</b>                                        | <b>December 31, 2014</b> |                   |
|---------------------------------------------------------------------|--------------------------|-------------------|
|                                                                     | <b>Book value</b>        | <b>Fair value</b> |
| <b>Non-Derivative Financial Instruments</b>                         |                          |                   |
| Deposits from Central Bank and other banks                          | \$ 49,934,428            | 49,934,428        |
| Due to Central Bank and other banks                                 | 54,087,143               | 54,087,143        |
| Financial liabilities measured at fair value through profit or loss | 30,260,239               | 30,260,239        |
| Securities sold under repurchase agreements                         | 60,230,776               | 60,230,776        |
| Payables                                                            | 76,813,007               | 76,813,007        |
| Current income tax liabilities                                      | 3,094,672                | 3,094,672         |
| Deposits and remittances                                            | 2,422,627,174            | 2,422,627,174     |
| Financial debentures                                                | 98,457,298               | 98,457,298        |
| Other financial liabilities                                         | 136,426,451              | 136,426,451       |
| <b>Derivative Financial Instruments</b>                             |                          |                   |
| Trading purpose                                                     |                          |                   |
| Forwards                                                            | 1,546,997                | 1,546,997         |
| Non-delivery forwards                                               | 1,784,205                | 1,784,205         |
| Currency swaps                                                      | 23,909,916               | 23,909,916        |
| Cross currency swaps                                                | 2,599,011                | 2,599,011         |
| Interest rate swaps                                                 | 10,639,050               | 10,639,050        |
| Options                                                             | 21,972,624               | 21,972,624        |
| Asset swaps                                                         | 62,395                   | 62,395            |
| Credit default swaps                                                | 13,994                   | 13,994            |
| Interest rate futures                                               | 494                      | 494               |
| Commodity futures                                                   | 1                        | 1                 |
| Commodity swaps                                                     | 21,475                   | 21,475            |
| Bond Forwards                                                       | 3,981                    | 3,981             |
| Equity index futures                                                | 1,865                    | 1,865             |
| Derivative financial liabilities — hedging                          | 916,322                  | 916,322           |

| <b>Financial assets</b>                                        | <b>December 31, 2013</b> |                   |
|----------------------------------------------------------------|--------------------------|-------------------|
|                                                                | <b>Book value</b>        | <b>Fair value</b> |
| <b>Non-Derivative Financial Instruments</b>                    |                          |                   |
| Cash and cash equivalents                                      | \$ 84,431,256            | 84,431,256        |
| Due from Central Bank and call loans to bank                   | 125,125,631              | 125,125,631       |
| Financial assets measured at fair value through profit or loss | 47,600,721               | 47,600,721        |
| Available-for-sale financial assets — net                      | 295,394,274              | 295,394,274       |
| Receivables — net                                              | 165,594,643              | 165,594,643       |
| Current income taxes assets                                    | 976,140                  | 976,140           |
| Loans — net                                                    | 1,272,380,866            | 1,272,380,866     |
| Held-to-maturity financial assets — net                        | 61,274,934               | 61,610,394        |
| Other financial assets — net                                   | 3,051,379                | 3,051,379         |
| <b>Derivative Financial Instruments</b>                        |                          |                   |
| Trading purpose                                                |                          |                   |
| Forwards                                                       | 1,018,243                | 1,018,243         |
| Non-delivery forwards                                          | 1,823,079                | 1,823,079         |
| Currency swaps                                                 | 11,919,567               | 11,919,567        |
| Cross currency swaps                                           | 563,002                  | 563,002           |
| Interest rate swaps                                            | 7,862,373                | 7,862,373         |
| Options                                                        | 3,912,872                | 3,912,872         |
| Asset swaps                                                    | 161,968                  | 161,968           |
| Credit default swaps                                           | 7,027                    | 7,027             |
| Commodity futures                                              | 586                      | 586               |
| Commodity swaps                                                | 81,211                   | 81,211            |
| Equity index futures                                           | 43,996                   | 43,996            |
| Derivative financial assets — hedging                          | 910,113                  | 910,113           |



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

| <b>Financial liabilities</b>                                        | <b>December 31, 2013</b> |                   |
|---------------------------------------------------------------------|--------------------------|-------------------|
|                                                                     | <b>Book value</b>        | <b>Fair value</b> |
| <b>Non-Derivative Financial Instruments</b>                         |                          |                   |
| Deposits from Central Bank and other banks                          | \$ 48,409,512            | 48,409,512        |
| Due to Central Bank and other banks                                 | 7,384,030                | 7,384,030         |
| Financial liabilities measured at fair value through profit or loss | 2,136                    | 2,136             |
| Securities sold under repurchase agreements                         | 61,038,194               | 61,038,194        |
| Payables                                                            | 45,532,625               | 45,532,625        |
| Current income tax liabilities                                      | 1,420,066                | 1,420,066         |
| Deposits and remittances                                            | 1,731,169,325            | 1,731,169,325     |
| Financial debentures                                                | 58,269,949               | 58,269,949        |
| Other financial liabilities                                         | 15,656,655               | 15,656,655        |
| <b>Derivative Financial Instruments</b>                             |                          |                   |
| Trading purpose                                                     |                          |                   |
| Forwards                                                            | 561,627                  | 561,627           |
| Non-delivery forwards                                               | 1,660,992                | 1,660,992         |
| Currency swaps                                                      | 11,194,709               | 11,194,709        |
| Cross currency swaps                                                | 1,032,426                | 1,032,426         |
| Interest rate swaps                                                 | 7,800,757                | 7,800,757         |
| Options                                                             | 5,527,911                | 5,527,911         |
| Asset swaps                                                         | 47,763                   | 47,763            |
| Credit default swaps                                                | 8,383                    | 8,383             |
| Interest rate futures                                               | 3,532                    | 3,532             |
| Commodity swaps                                                     | 75,047                   | 75,047            |
| Equity index futures                                                | 11                       | 11                |
| Derivative financial liabilities — hedging                          | 255,112                  | 255,112           |

(b) Methods and assumptions used by the Bank and its subsidiaries for fair value evaluation of financial instruments were as follows:

1. Fair value of short-term financial instruments is estimated by their book value on the balance sheet date. Since these instruments have short maturities, the book value is adopted as a reasonable basis in estimating the fair value. The method is applied to cash and cash equivalents, due from Central Bank and call loans to banks, securities purchased under reverse repurchase agreements, receivables, current tax assets, other financial assets, deposits from Central Bank and other banks, due to Central Bank and other banks, securities sold under repurchase agreements, payables, current tax liabilities, remittances, and other financial liabilities.
2. If there is a quoted price in an active market for the financial asset, including financial instruments measured at fair value through profit or loss, available-for-sale, held-to-maturity financial assets, and hedging derivative financial instruments, the quoted price is regarded as its fair value. If there is no quoted price in an active market for the financial asset, its fair value is estimated on the basis of the result of a valuation technique that refers to quoted prices provided by financial institutions. The estimates, hypotheses and discount rates for valuation referring to quoted prices, from financial institutions, of financial instruments have 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. Fair value of debt investments without an active market accounted for under other financial assets is determined by the quoted estimated fair value from the counterparties, and recorded in accordance with the

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

“Regulations Governing the Preparation of Financial Reports by Public Banks,” which required the amount to be booked at amortized cost. Fair value for an equity investment is determined based on either the price calculated using a valuation technique or its book value.

3. Loans and deposits are both classified as interest-bearing financial assets; therefore, the book value of financial assets is equivalent to their fair value. The net book value of the non-accrual account, after deducting provision for credit loss, is adopted as the fair value.
4. Fair value of long-term liabilities is estimated by the present value of expected future cash flows. The discount rate is based on rates of equivalent loans available elsewhere; that is, loans with similar maturity date and terms (close to the maturity date).
5. Derivatives usually adopt mark-to-model prices. The Discounted-Cash-Flow model is adopted for non-option derivatives, and the Black-Scholes model is adopted for option derivatives.
6. The exchange price is used for financial instruments traded on an exchange. Over-the-counter (OTC) positions use independent price/parameter quotes by reliable brokers or data vendors, such as Reuters, Bloomberg, etc. In general, the closing price, settlement price, mid-price at a fixed cut-off time, and the average price of several independent brokers could be used as market data for valuation purposes.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(c) Fair value hierarchy information on financial instruments and the statements of changes in fair value of Level 3

1. Fair value hierarchy information on financial instruments

| Fair value measurement for financial instruments                             | December 31, 2014 |                     |                     |                     |
|------------------------------------------------------------------------------|-------------------|---------------------|---------------------|---------------------|
|                                                                              | Total             | Level 1<br>(Note 1) | Level 2<br>(Note 2) | Level 3<br>(Note 3) |
| <b><u>Non-Derivative Financial Instruments</u></b>                           |                   |                     |                     |                     |
| <b>Assets:</b>                                                               |                   |                     |                     |                     |
| Financial assets measured at fair value through profit or loss               |                   |                     |                     |                     |
| Financial assets held for trading                                            |                   |                     |                     |                     |
| Investment in stocks                                                         | \$ 157,311        | 157,311             | -                   | -                   |
| Investment in bonds                                                          | 38,492,988        | 2,658,944           | 35,834,044          | -                   |
| Others                                                                       | 283,213           | 283,213             | -                   | -                   |
| Designated as financial assets measured at fair value through profit or loss |                   |                     |                     |                     |
| Investment in stocks                                                         | 2,842,058         | -                   | 2,842,058           | -                   |
| Investment in bonds                                                          | 6,639,722         | -                   | 6,639,681           | 41                  |
| Others                                                                       | 2,275,242         | -                   | -                   | 2,275,242           |
| Available-for-sale financial assets—net                                      |                   |                     |                     |                     |
| Investment in stocks                                                         | 2,362,362         | 2,362,362           | -                   | -                   |
| Investment in bonds                                                          | 540,769,169       | 175,907,750         | 364,018,798         | 842,621             |
| Others                                                                       | 6,164,105         | 1,711,963           | 4,452,142           | -                   |
| <b>Liabilities:</b>                                                          |                   |                     |                     |                     |
| Designated as financial assets measured at fair value through profit or loss | 30,260,239        | -                   | -                   | 30,260,239          |
| <b><u>Derivative Financial Instruments</u></b>                               |                   |                     |                     |                     |
| <b>Assets:</b>                                                               |                   |                     |                     |                     |
| Financial assets measured at fair value through profit or loss               | 57,709,720        | 57,842              | 45,550,438          | 12,101,440          |
| Derivative financial assets—hedging                                          | 1,499,486         | -                   | 1,347,553           | 151,933             |
| <b>Liabilities:</b>                                                          |                   |                     |                     |                     |
| Financial liabilities measured at fair value through profit or loss          | 62,556,008        | 46,020              | 50,409,731          | 12,100,257          |
| Derivative financial liabilities—hedging                                     | 916,322           | -                   | 916,322             | -                   |
| <b>December 31, 2013</b>                                                     |                   |                     |                     |                     |
| Fair value measurement for financial instruments                             | Total             | Level 1<br>(Note 1) | Level 2<br>(Note 2) | Level 3<br>(Note 3) |
|                                                                              |                   |                     |                     |                     |
| <b><u>Non-Derivative Financial Instruments</u></b>                           |                   |                     |                     |                     |
| <b>Assets:</b>                                                               |                   |                     |                     |                     |
| Financial assets measured at fair value through profit or loss               |                   |                     |                     |                     |
| Financial assets held for trading                                            |                   |                     |                     |                     |
| Investment in stocks                                                         | \$ 845,526        | 845,526             | -                   | -                   |
| Investment in bonds                                                          | 46,755,195        | 7,248,478           | 39,506,717          | -                   |
| Available-for-sale financial assets—net                                      |                   |                     |                     |                     |
| Investment in stocks                                                         | 5,373,898         | 5,373,898           | -                   | -                   |
| Investment in bonds                                                          | 290,013,689       | 771,831             | 288,737,697         | 504,161             |
| Others                                                                       | 6,687             | 6,471               | 216                 | -                   |
| <b>Liabilities:</b>                                                          |                   |                     |                     |                     |
| Financial liabilities measured at fair value through profit or loss          | 2,136             | 2,136               | -                   | -                   |
| <b><u>Derivative Financial Instruments</u></b>                               |                   |                     |                     |                     |
| <b>Assets:</b>                                                               |                   |                     |                     |                     |
| Financial assets measured at fair value through profit or loss               | 27,393,924        | 98,407              | 24,610,973          | 2,684,544           |
| Derivative financial assets—hedging                                          | 910,113           | -                   | 91,326              | 818,787             |
| <b>Liabilities:</b>                                                          |                   |                     |                     |                     |
| Financial liabilities measured at fair value through profit or loss          | 27,913,158        | 106,276             | 25,205,379          | 2,601,503           |
| Derivative financial liabilities—hedging                                     | 255,112           | 255,112             | -                   | -                   |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

2. Statements of changes in financial assets which were classified to Level 3 based on fair value measurement

| For the year ended December 31, 2014                                         |                     |                                             |                                                     |                   |                                                |                                                                                        |                               |                                                |                                                                                        |                   |
|------------------------------------------------------------------------------|---------------------|---------------------------------------------|-----------------------------------------------------|-------------------|------------------------------------------------|----------------------------------------------------------------------------------------|-------------------------------|------------------------------------------------|----------------------------------------------------------------------------------------|-------------------|
| Items                                                                        | Beginning balance   | The amount recognized in current net income | The amount recognized in other comprehensive income | Purchase or issue | Current increase                               |                                                                                        | Current decrease              |                                                | Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets | Ending balance    |
|                                                                              |                     |                                             |                                                     |                   | Transfer in of Level 3 and out of other levels | Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities | Sale, disposal, or settlement | Transfer in of other levels and out of Level 3 |                                                                                        |                   |
| Financial assets measured at fair value through profit or loss               |                     |                                             |                                                     |                   |                                                |                                                                                        |                               |                                                |                                                                                        |                   |
| Financial assets held for trading                                            | \$ 2,684,544        | 12,477,652                                  | -                                                   | 1,796,927         | 1,148,480                                      | 67,128                                                                                 | 4,765,926                     | 1,307,365                                      | -                                                                                      | 12,101,440        |
| Designated as financial assets measured at fair value through profit or loss | -                   | 120,145                                     | -                                                   | 2,155,138         | -                                              | -                                                                                      | -                             | -                                              | -                                                                                      | 2,275,283         |
| Available-for-sale financial assets—net                                      | 504,161             | 25,983                                      | 41,969                                              | 575,613           | -                                              | -                                                                                      | 305,105                       | -                                              | -                                                                                      | 842,621           |
| Derivative financial assets—hedging                                          | 818,787             | (666,854)                                   | -                                                   | -                 | -                                              | -                                                                                      | -                             | -                                              | -                                                                                      | 151,933           |
| <b>Total</b>                                                                 | <b>\$ 4,007,492</b> | <b>11,956,926</b>                           | <b>41,969</b>                                       | <b>4,527,678</b>  | <b>1,148,480</b>                               | <b>67,128</b>                                                                          | <b>5,071,031</b>              | <b>1,307,365</b>                               | <b>-</b>                                                                               | <b>15,371,277</b> |

Note : The increase of \$923,524 in designated as financial assets measured at fair value through profit or loss was due to the acquisition of Tokyo Star Bank, Ltd; the increase of \$640,752 in available-for-sale financial assets- net was due to the acquisition of Tokyo Star Bank, Ltd.

| For the year ended December 31, 2013                           |                     |                                             |                                                     |                   |                                                |                                                                                        |                               |                                                |                                                                                        |                  |
|----------------------------------------------------------------|---------------------|---------------------------------------------|-----------------------------------------------------|-------------------|------------------------------------------------|----------------------------------------------------------------------------------------|-------------------------------|------------------------------------------------|----------------------------------------------------------------------------------------|------------------|
| Items                                                          | Beginning balance   | The amount recognized in current net income | The amount recognized in other comprehensive income | Purchase or issue | Current increase                               |                                                                                        | Current decrease              |                                                | Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets | Ending balance   |
|                                                                |                     |                                             |                                                     |                   | Transfer in of Level 3 and out of other levels | Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities | Sale, disposal, or settlement | Transfer in of other levels and out of Level 3 |                                                                                        |                  |
| Financial assets measured at fair value through profit or loss |                     |                                             |                                                     |                   |                                                |                                                                                        |                               |                                                |                                                                                        |                  |
| Financial assets held for trading                              | \$ 2,113,739        | 9,041,573                                   | -                                                   | 844,916           | 8,683,217                                      | 27,862                                                                                 | 7,873,714                     | 10,153,049                                     | -                                                                                      | 2,684,544        |
| Available-for-sale financial assets—net                        | 481,542             | -                                           | 27,470                                              | -                 | -                                              | -                                                                                      | 4,851                         | -                                              | -                                                                                      | 504,161          |
| Derivative financial assets—hedging                            | 1,433,060           | (614,273)                                   | -                                                   | -                 | -                                              | -                                                                                      | -                             | -                                              | -                                                                                      | 818,787          |
| <b>Total</b>                                                   | <b>\$ 4,028,341</b> | <b>8,427,300</b>                            | <b>27,470</b>                                       | <b>844,916</b>    | <b>8,683,217</b>                               | <b>27,862</b>                                                                          | <b>7,878,565</b>              | <b>10,153,049</b>                              | <b>-</b>                                                                               | <b>4,007,492</b> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

3. Statements of changes in financial liabilities which were classified to Level 3 based on fair value measurement

| For the year ended December 31, 2014                                  |                    |                                             |                                                     |                   |                                                |                                                                                        |                               |                                                |                                                                                        |                   |
|-----------------------------------------------------------------------|--------------------|---------------------------------------------|-----------------------------------------------------|-------------------|------------------------------------------------|----------------------------------------------------------------------------------------|-------------------------------|------------------------------------------------|----------------------------------------------------------------------------------------|-------------------|
| Items                                                                 | Beginning balance  | The amount recognized in current net income | The amount recognized in other comprehensive income | Purchase or issue | Transfer in of Level 3 and out of other levels | Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets | Current decrease              |                                                |                                                                                        | Ending balance    |
|                                                                       |                    |                                             |                                                     |                   |                                                |                                                                                        | Sale, disposal, or settlement | Transfer in of other levels and out of Level 3 | Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities |                   |
| Financial assets measured at fair value through profit or loss        |                    |                                             |                                                     |                   |                                                |                                                                                        |                               |                                                |                                                                                        |                   |
| Financial assets held for trading                                     | \$ 2,601,503       | 11,132,254                                  | -                                                   | 3,122,954         | 387,401                                        | 67,128                                                                                 | 4,758,415                     | 452,568                                        | -                                                                                      | 12,100,257        |
| Financial liabilities designated at fair value through profit or loss | -                  | (2,040,443)                                 | (464,012)                                           | 32,764,694        | -                                              | -                                                                                      | -                             | -                                              | -                                                                                      | 30,260,239        |
| <b>Total</b>                                                          | <b>\$2,601,503</b> | <b>9,091,811</b>                            | <b>(464,012)</b>                                    | <b>35,887,648</b> | <b>387,401</b>                                 | <b>67,128</b>                                                                          | <b>4,758,415</b>              | <b>452,568</b>                                 | <b>-</b>                                                                               | <b>42,360,496</b> |

| For the year ended December 31, 2013                           |                   |                                             |                   |                                                |                                                                                        |                               |                                                |                                                                                        |                |  |
|----------------------------------------------------------------|-------------------|---------------------------------------------|-------------------|------------------------------------------------|----------------------------------------------------------------------------------------|-------------------------------|------------------------------------------------|----------------------------------------------------------------------------------------|----------------|--|
| Items                                                          | Beginning balance | The amount recognized in current net income | Purchase or issue | Transfer in of Level 3 and out of other levels | Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets | Sale, disposal, or settlement | Transfer in of other levels and out of Level 3 | Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities | Ending balance |  |
|                                                                |                   |                                             |                   |                                                |                                                                                        |                               |                                                |                                                                                        |                |  |
| Financial assets measured at fair value through profit or loss |                   |                                             |                   |                                                |                                                                                        |                               |                                                |                                                                                        |                |  |
| Financial assets held for trading                              | \$ 761,649        | 5,640,224                                   | 2,974,265         | 272,124                                        | 27,862                                                                                 | 6,816,506                     | 258,115                                        | -                                                                                      | 2,601,503      |  |

Note 1: Fair value measurement for a financial instrument classified in Level 1 is determined as the quoted price for an identical financial instrument in an active market. The definition of active market has all of the following conditions: (1) the products traded in the market are homogeneous, (2) willing parties are available anytime in the market, and (3) price information is available for the public.

Note 2: Fair value measurement for a financial instrument classified in Level 2 is determined as the observable price other than quoted price in an active market, including an observable input obtained in an active market, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The examples of observable price are as follows:

- A. The quoted price for an identical financial instrument in an active market means the fair value from the market transaction prices for an identical financial instrument. An identical financial instrument should be determined by its characteristics and terms of transaction. The fair value of a financial instrument has to be adjusted according to the observable market price of the identical financial instrument. The reasons for adjustments include time lag of the occurring market transaction prices for an identical financial instrument (the quoted

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

prices do not represent fair value at the measurement date), the difference in transaction terms for financial instruments, transaction prices involving related parties, and the correlation between the observable transaction prices of identical financial instruments and the market prices of held financial instruments.

- B. The quoted market price of the same or identical financial instruments in an inactive market.
- C. The fair value is estimated on the basis of the results of a valuation technique, and the market inputs used (i.e., interest rate, yield curve, and fluctuation rate) are based on obtainable data from the market (an observable input means an input can be derived from market data and can reflect the expectation of market participants when the inputs were used in evaluating the prices of financial instruments).
- D. A majority of inputs are derived from observable market data, or the input correlation can be tested based on observable market data.

Note 3: Input for a fair value measurement for a financial instrument classified in Level 3 is not based on obtainable data from the market (an unobservable input, such as volatility for a share option derived from the share's historical prices, as it does not generally represent current market expectations about future volatility).

- (d) For the year ended December 31, 2014 and 2013, unrealized gains due to the estimated change of fair value recognized by the Bank and its subsidiaries were \$5,456,625 and \$428,506, respectively.
- (e) Financial risk information

The major objective of the risk management of the Bank and its subsidiaries is to control the risk under the scope approved by the board of directors by using effective management methods to utilize resource and create maximum economic profit. For major risks, the Bank and its subsidiaries have established the risk management policies to serve as its primary principle, which covers managerial objective, organizational structure, accountability, and risk management procedures, and by implementing these mechanisms, operational risks can be controlled at an acceptable level.

The organization structure of risk management includes Board of Directors, General Auditor, Risk Management Committee, Senior Management and Global Risk Management Group. The scope of their authorities illustrates as follow:

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

General Auditor is responsible for planning and carrying out all kind of audit business and is directly accountable to the Board. The internal auditing unit under the General

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Auditor must regularly review and assess the integrity and actual implementation on various kinds of risk management mechanism, and timely provide suggestions for improvement so that the risk management mechanism can be run continually effectively.

Risk Management Committee assists the Board in risk governance, by communicating, reporting, and recommendations; Risk Management Committee also builds appropriate risk authorization and will monitor and ensure risk authorization operates properly. We expect the senior managers to support the Bank's culture of risk management, through decision-making processes and leader's supportive behavior, and thus influence all employees and organization.

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

Global Risk Management Group is responsible for planning and managing the Bank's risk profiles which include credit, market, operations, interest and liquidity risks of the banking book, and developing proper policies and strategies relating to risk identification, measurement, control, and management.

1. Market Risk Management

Definition and sources of market risk management

Market risk is the risk that the Bank and its subsidiaries' earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rate (including credit spread), foreign exchange rate, securities price and commodity price. The market correlation and liquidity of these types of instruments are also covered.

The market risk of the Bank and its subsidiaries arises from either trading or non-trading portfolios. The trading portfolio includes positions arising from trading activities, which aim at benefiting from short-term price movements, such as proprietary trading and market making. The non-trading portfolio includes positions not held for the purpose of earning capital gains.

The market risk management framework for trading and non-trading portfolios is described as follows:

A. Trading Portfolios Management

a. Objective

The Market Risk Management Policy is the cornerstone of managing market risk-taking activities in the Bank and its subsidiaries. The Policy is developed to establish definite market risk management mechanisms of financial transaction, to facilitate market risk communication within the Bank and its subsidiaries, and to provide proper management.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

b. Market Risk Management Procedure and Measurement

(A) Management Procedures

(a) Risk identification

Risk-taking unit shall identify the risk related to factors resulting from the business strategy or financial instruments, and those factors should be clearly stated in the relevant product program documentation. Market risk management unit (MRMU) is responsible for executing appropriate identification of market risk.

(b) Risk measurement

MRMU shall define appropriate and consistent market risk measurement methodologies in line with the business characteristics and risk sources to properly evaluate the primary market risk exposure. The risk measurement shall be applied to daily management and shall serve as a foundation for market risk planning, monitoring, and controlling.

Valuation approach and market data adoption for calculating P/L, risk sensitivities, Value at Risk (VaR), stress testing should be approved by MRMU.

(c) Risk monitoring

Market risk limit is a tool for authorizing and controlling specific forms of market risk arising from the trading activities of the Bank and its subsidiaries to ensure that the Bank and its subsidiaries are not exposed to market risk beyond the risk appetite. Market risk limit management procedures, including the establishment, approval, exception management and limit excess treatment, shall comply with the relevant market risk management documents.

(d) Risk reporting

Market risk reporting is an effective risk communication tool. MRMU shall submit market risk management reports to senior managers on a daily basis and periodically report the integrated market risk portfolio to senior executives and the Board to evaluate risk concentration and capacity of the Bank and its subsidiaries, and to form necessary risk adjusting strategies.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(B) Risk Measurement Approaches

(a) Value at Risk, VaR

The VaR model has been developed as an independent and reliable quantitative technique for internal risk management purpose, and will be continually refined to meet the quantitative and qualitative standards of IMA (Internal Model Approach) requirements.

(b) Stress Testing

Stress testing is used to calculate a range of trading exposures which result from extreme market events or scenarios. Stress testing measures the impact of exceptional changes in market rate/price, volatility or correlation in the fair value of trading portfolios as a supplement to VaR which is unable to capture the tail risk.

(c) Factor Sensitivity

Factor sensitivity is a measurement for monitoring the cross-product exposures within each risk type, including but not limited to foreign exchange, interest rate, equity, commodity, and credit.

c. Market Risk Mitigation and Hedging

The Bank's trading portfolios include spots and derivatives. The derivatives are employed to reduce spots exposure or combined with other derivatives to form trading strategy. MRMU evaluates and controls the mitigation effectiveness between trading positions and its hedge positions by using risk measurement tools, such as VaR, risk sensitivities, etc.

d. Interest Rate Risk Management

(A) Definition

Interest rate risk arises from adverse changes in interest rates. Primary interest rate related instruments held in the Bank and its subsidiaries' trading portfolios include bonds and interest rate derivatives, such as interest rate swaps, caps/floors, and swaptions.

(B) Management Procedure

In order to effectively control the interest rate risk in the trading portfolios, the Bank and its subsidiaries control interest rate risk by setting limits in different yield curves and currencies depending on its own business development and management needs.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(C) Measurement Approach

PVBP, the change in fair value as the yield curve parallel shifts up by 0.01% (1bp), is used to measure interest rate risk exposures of the Bank and its subsidiaries' trading portfolios.

|                                             |          | Unit : In Thousands of New Taiwan Dollars |                   |
|---------------------------------------------|----------|-------------------------------------------|-------------------|
|                                             | Currency | December 31, 2014                         | December 31, 2013 |
| <u>Yield curve parallel shift of +0.01%</u> |          |                                           |                   |
|                                             | CNY      | \$ 192                                    | (218)             |
|                                             | EUR      | 88                                        | (129)             |
|                                             | HKD      | (153)                                     | (281)             |
|                                             | JPY      | (56)                                      | (32)              |
|                                             | NTD      | 99                                        | 935               |
|                                             | USD      | (443)                                     | 449               |
|                                             | Others   | (395)                                     | (603)             |

e. Foreign Exchange Risk

(A) Definition

Foreign exchange risk arises from adverse changes in exchange rates. Primary foreign exchange instruments held in the Bank and its subsidiaries' trading portfolios include spots, forwards, and currency options.

(B) Management Procedure

In order to effectively control the foreign exchange risk for the trading portfolios, the Bank and its subsidiaries control foreign exchange risk by setting limits in different currencies or currency pairs depending on its own business development and management needs.

(C) Measurement Approach

FX Delta, the change in net present value as the foreign exchange rate moves up by one unit, 1%, is used to measure foreign exchange risk exposure of the Bank and its subsidiaries' trading portfolios.

|                                                  |          | Unit : In Thousands of New Taiwan Dollars |                   |
|--------------------------------------------------|----------|-------------------------------------------|-------------------|
|                                                  | Currency | December 31, 2014                         | December 31, 2013 |
| <u>Underlying currency upward movement by 1%</u> |          |                                           |                   |
|                                                  | AUD      | \$ (912)                                  | (1,587)           |
|                                                  | CNY      | 47,368                                    | 141,046           |
|                                                  | EUR      | (6,012)                                   | (1,088)           |
|                                                  | GBP      | 256                                       | (223)             |
|                                                  | HKD      | (2,726)                                   | (3,284)           |
|                                                  | JPY      | 2,318                                     | (13,822)          |
|                                                  | KRW      | (2,431)                                   | (115)             |
|                                                  | USD      | 1,812                                     | (109,427)         |
|                                                  | Others   | 2,985                                     | (7,147)           |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

f. Other Risk Factor Sensitivities

(A) Equity Factor Sensitivity (Equity delta)

Equity Delta is the change in fair value as the underlying stock price or index price moves up by 1%. Primary equity instruments held in the Bank and its subsidiaries' trading portfolios include stocks, convertible bonds, equity index futures and options.

(B) Commodity Factor Sensitivity (Commodity delta)

Commodity Delta is the change in fair value as the underlying commodity price moves up by 1%. Primary commodity instruments held in the Bank and its subsidiaries' trading portfolios include derivatives in gold and crude oil.

(C) Credit Spread Factor Sensitivity (CR01, Credit 01)

CR01 is the change in fair value as the credit spread shift up by 0.01% (1bp). Primary credit-linked instruments held in the Bank and its subsidiaries' trading portfolios include credit default swaps.

| <u>Equity factor sensitivity (Equity delta)</u> | <u>Country/<br/>Commodity</u> | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|-------------------------------------------------|-------------------------------|--------------------------|--------------------------|
| Equity Factor Sensitivity                       |                               |                          |                          |
| Stock price or index upward movement by 1%      | Taiwan                        | \$ 11,402                | 15,574                   |
|                                                 | USA                           | (825)                    | 550                      |
|                                                 | HK                            | 3,064                    | -                        |
|                                                 | Other                         | 2,832                    | -                        |
| Commodity Factor Sensitivity                    |                               |                          |                          |
| Commodity price upward movement by 1%           | Nickel                        | 346                      | -                        |
|                                                 | Gold                          | 8                        | (614)                    |
|                                                 | Copper                        | (30)                     | 12                       |
|                                                 | Others                        | (11)                     | (16)                     |
| Credit Spread Factor Sensitivity                |                               |                          |                          |
| Credit spread upward shift by 0.01%             |                               | (160)                    | (113)                    |

B. Management Mechanism of Non-Trading Purpose Investment Portfolio

a. Management of Non-Trading Purpose Interest Rate Risk

(A) Definition of Non-Trading Purpose Interest Rate Risk

Non-trading purpose interest rate risk of the Bank and its subsidiaries refers to the impact on the profit or economic value of non-trading purpose interest rate sensitive asset/ liabilities when interest rate changes.

Interest rate risk mainly stems from different sensitivity of assets and liabilities to interest rate change. If interest rate of different repricing tenor moves at varying magnitude when external interest rates change, the mismatches of repricing timing/ amount of asset and liability may fluctuate the Bank and its subsidiaries' profit.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(B) Management Objective of Non-Trading Purpose Interest Rate Risk**

The management objective of non-trading purpose interest rate risk of the Bank and its subsidiaries' aims to keep interest rate exposures within the risk appetite through the establishment of authorities, responsibilities and management procedures. It provides guide to adjusting asset and liability structures in anticipation of interest rate changes so that funds can be used more efficiently and the Bank and its subsidiaries' profit can be maximized.

**(C) Management Procedures and Risk Measurement of Non-Trading Purpose Interest Rate Risk.**

The Bank and its subsidiaries identify, measure, monitor, and report the interest rate risk through a thorough risk management framework and procedures. To control the interest rate risk, the Bank and its subsidiaries periodically monitor the risk exposure according to the approved limit hierarchy and apply matched term Fund Transfer Pricing Mechanism to transfer interest rate risk from business units to designated fund management unit.

Interest rate risk monitoring unit periodically conducts the risk reports, which contain the analysis of limit usage and interest rate risk sensitivity. The risk report with supplemental stress test result shall periodically be submitted to related risk management meetings. The measurement of non-trading purpose interest rate risk includes non-trading purpose interest-sensitive asset, liabilities, financial instruments, and interest rate related derivatives which apply hedge accounting. The Bank and its subsidiaries measure interest rate risks by the following tools:

- (a) Repricing Gap Report : This report measures the repricing gap between asset and liability by various time buckets in order to understand interest rate mismatch.
- (b) Interest Rate Sensitivity : This measures the impact of 1 basis point change in interest rate on net interest income (NII) and that on economic value of equity (EVE). The analysis of such impact on NII ( $1bp\Delta NII$ ) focuses on changes in interest income and expense within a year; hence, this analysis is of a short-term perspective. The analysis of such impact on EVE ( $1bp\Delta EVE$ ) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on.
- (c) Stress Test : This evaluates the impact of a significant change in interest rate on EVE. The test results will be compared with capital in order to examine the appropriateness of exposure.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(D) Risk Mitigation and Hedge of Non-Trading Purpose Interest Rate Risk

The Bank and its subsidiaries set limits to manage risk. When an excess of limit is confirmed, business unit will explain the reason; risk monitoring unit analyzes the impact, coordinates funding management unit and other related units to submit the action plan to the limit authority for approval, and traces the effectiveness of the action plan.

The Bank and its subsidiaries may adjust the interest rate risk exposure by adjusting the asset and liability structures or entering derivative with external counterparties. Prior to executing an external hedge, the hedge plan with specified hedged position, profit and loss analysis and detailed scheme shall gain approval from the limit authority. After a hedge executed, risk management unit shall periodically review the hedge execution and its effectiveness, and report to the limit authority depending on the impact.

b. Management of Non-Trading Purpose Foreign Exchange Rate Risk

(A) Definition and Sources of Non-Trading Purpose Foreign Exchange Rate Risk

Non-trading purpose foreign exchange (FX) rate risk of the Bank and its subsidiaries' refers to the impact on the profit or loss due to fluctuation of FX rate of non-trading purpose FX positions, such as interest income/ expenses of foreign currency denominated loans/ deposits or accrued interests of foreign currency bonds. Although the unrealized foreign currency gains and losses of "available-for-sale" positions entail FX risks, FX risk management does not apply to these gains/ losses because they have not been recognized in the income statement.

(B) Management Objective of Non-Trading Purpose Foreign Exchange Rate Risk

The management objective of non-trading purpose FX risk of the Bank and its subsidiaries aims to keep FX exposures within the risk appetite through the establishment of authorities, responsibilities and management procedures.

(C) Management Procedure and Risk Measurement of Non-Trading Purpose Foreign Exchange Rate Risk

The Bank and its subsidiaries identify, measure, monitor, and report the FX risk through the thorough risk management framework and procedure. To control the FX risk, the Bank and its subsidiaries periodically monitor the risk exposure according to the approved limit hierarchy and sweep FX risk centrally from business units to designated FX management unit. The risk factor which measures

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

non-trading purpose Foreign Exchange Risk is “FX Delta”, which measures the impact on the profit and loss when FX rate changes.

(D) Risk Mitigation and Hedge of Non-Trading Purpose Foreign Exchange Rate Risk

The Bank and its subsidiaries set the limits and control mechanisms to manage the FX risk. When an excess of limit is confirmed, business unit will explain the reason; risk monitoring unit analyzes the impact, coordinates business unit to submit the action plan to the limit authority for approval, and traces the effectiveness of the action plan.

Prior to executing an external hedge, the hedge plan with specified hedged position, profit and loss analysis and detailed scheme shall gain approval from the limit authority. After a hedge executed, risk management unit shall periodically review the hedge execution and its effectiveness, and report to the limit authority depending on the impact.

c. Management of Non-Trading Purpose Equity Risk

(A) Definition and Sources of Non-Trading Purpose Equity Risk

Non-trading purpose equity risk of the Bank and its subsidiaries’ refers to the impact on the profit or loss of non-trading purpose equity position when equity price changes.

(B) Management Objective of Non-Trading purpose Equity Risk

The management objective of non-trading purpose equity risk of the Bank and its subsidiaries aims to keep equity exposures within the risk appetite and strives to minimize the unfavorable impact to earnings or shareholder value through the establishment of authorities, responsibilities and management procedures.

(C) Management Procedure and Risk Measurement of Non-Trading purpose Equity Risk

The Bank and its subsidiaries identify, measure, monitor, and report the equity risk through the thorough risk management framework and procedure. To control the equity risk, the Bank and its subsidiaries periodically monitor the risk exposure according to the approved limit hierarchy. The equity risk limit structure contains holding cost limit and Year-To-Date profit and loss management action trigger (YTD MAT).

(D) Risk Mitigation and Hedge of Non-Trading Purpose Equity Risk

The Bank and its subsidiaries set the limits to manage the risk. When an excess of limit is confirmed, business unit will explain the reason;



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

risk monitoring unit analyzes the impact, coordinates business unit to submit the action plan to the limit authority for approval, and traces the effectiveness of the action plan.

d. Factor Sensitivity Analysis

Factor sensitivity analysis by the Bank and its subsidiaries summarized as below:

| December 31, 2014          |                                            |                 |          |
|----------------------------|--------------------------------------------|-----------------|----------|
| Risk Items                 | Movement                                   | Amount          |          |
|                            |                                            | Profit and Loss | Equity   |
| Interest Rate Risk         | Interest rate curve shift up 1bp           | 76,996          | (53,334) |
|                            | Interest rate curve shift down 1bp         | (76,277)        | 53,334   |
| Foreign Exchange Rate Risk | Foreign currency appreciate 1% against NTD | (1,974)         | -        |
|                            | Foreign currency depreciate 1% against NTD | 1,974           | -        |
| Equity Price Risk          | Equity price appreciate 1%                 | 28,421          | 85,268   |
|                            | Equity price depreciate 1%                 | (28,421)        | (85,268) |

| December 31, 2013          |                                            |                 |          |
|----------------------------|--------------------------------------------|-----------------|----------|
| Risk Items                 | Movement                                   | Amount          |          |
|                            |                                            | Profit and Loss | Equity   |
| Interest Rate Risk         | Interest rate curve shift up 1bp           | 63,549          | (18,078) |
|                            | Interest rate curve shift down 1bp         | (63,285)        | 18,078   |
| Foreign Exchange Rate Risk | Foreign currency appreciate 1% against NTD | (1,884)         | -        |
|                            | Foreign currency depreciate 1% against NTD | 1,884           | -        |
| Equity Price Risk          | Equity price appreciate 1%                 | -               | 53,804   |
|                            | Equity price depreciate 1%                 | -               | (53,804) |

Note: When a fair value hedge or hedge of a net investment in a foreign operation is in conformity with all the conditions for applying hedge accounting, the mentioned positions will not be covered by summarized details above. Because the affected profit or loss is recognized by offsetting the changes in the fair value of hedging instruments and hedged items.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

C. Foreign exchange rate gap information

According to IFRS 7 “Financial Instruments” paragraph No. 34(a), an entity shall disclose summarized quantitative data about its exposure to that risk at the end of the reporting period. Significant foreign exchange rate risk exposure of the Bank and its subsidiaries was as below:

| <b>December 31, 2014</b>            |                             |                  |                   |
|-------------------------------------|-----------------------------|------------------|-------------------|
|                                     | <b>Foreign<br/>currency</b> | <b>Spot rate</b> | <b>NTD amount</b> |
| <b><u>Financial assets</u></b>      |                             |                  |                   |
| <b><u>Monetary items</u></b>        |                             |                  |                   |
| USD                                 | \$ 18,591,890               | 31.7180          | 589,697,578       |
| CNY                                 | 19,177,553                  | 5.1150           | 98,093,186        |
| JPY                                 | 2,877,811,828               | 0.2651           | 762,907,915       |
| AUD                                 | 158,110                     | 25.9640          | 4,105,171         |
| CAD                                 | 355,770                     | 27.3150          | 9,717,846         |
| <b><u>Non-monetary items</u></b>    |                             |                  |                   |
| USD                                 | 21,621                      | 31.7180          | 685,774           |
| JPY                                 | 94,249,894                  | 0.2651           | 24,985,647        |
| <b><u>Financial liabilities</u></b> |                             |                  |                   |
| <b><u>Monetary items</u></b>        |                             |                  |                   |
| USD                                 | \$ 19,852,119               | 31.7180          | 629,669,506       |
| CNY                                 | 26,113,514                  | 5.1150           | 133,570,627       |
| JPY                                 | 2,713,412,503               | 0.2651           | 719,325,655       |
| AUD                                 | 155,996                     | 25.9640          | 4,050,278         |
| CAD                                 | 312,300                     | 27.3150          | 8,530,475         |

| <b>December 31, 2013</b>            |                             |                  |                   |
|-------------------------------------|-----------------------------|------------------|-------------------|
|                                     | <b>Foreign<br/>currency</b> | <b>Spot rate</b> | <b>NTD amount</b> |
| <b><u>Financial assets</u></b>      |                             |                  |                   |
| <b><u>Monetary items</u></b>        |                             |                  |                   |
| USD                                 | \$ 17,037,097               | 29.9500          | 510,261,041       |
| CNY                                 | 15,053,622                  | 4.9470           | 74,470,268        |
| JPY                                 | 80,052,298                  | 0.2853           | 22,838,921        |
| EUR                                 | 261,761                     | 41.2860          | 10,807,060        |
| AUD                                 | 580,395                     | 26.7120          | 15,503,521        |
| <b><u>Non-monetary items</u></b>    |                             |                  |                   |
| USD                                 | 18,765                      | 29.9500          | 562,011           |
| <b><u>Financial liabilities</u></b> |                             |                  |                   |
| <b><u>Monetary items</u></b>        |                             |                  |                   |
| USD                                 | \$ 17,569,705               | 29.9500          | 526,212,672       |
| CNY                                 | 22,936,850                  | 4.9470           | 113,468,596       |
| JPY                                 | 78,927,269                  | 0.2853           | 22,517,950        |
| EUR                                 | 266,925                     | 41.2860          | 11,020,265        |
| AUD                                 | 579,164                     | 26.7120          | 15,470,623        |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

D. Disclosure items required by the “Regulations Governing the Preparation of Financial Reports by Public Banks”

a. Interest rate sensitivity information

(A) Sensitivity analysis of interest rate for assets and liabilities (New Taiwan Dollars)

December 31, 2014

Unit : In Thousands of New Taiwan Dollars , %

| Items                                                      | 1~90 days<br>(inclusive) | 91~180 days<br>(inclusive) | 181 days~1 year<br>(inclusive) | Over 1 year | Total         |
|------------------------------------------------------------|--------------------------|----------------------------|--------------------------------|-------------|---------------|
| Interest rate sensitive assets                             | \$ 1,219,636,138         | 68,633,003                 | 49,510,989                     | 86,908,733  | 1,424,688,863 |
| Interest rate sensitive liabilities                        | 485,270,399              | 739,686,521                | 105,522,631                    | 49,238,999  | 1,379,718,550 |
| Interest rate sensitivity gap                              | 734,365,739              | (671,053,518)              | (56,011,642)                   | 37,669,734  | 44,970,313    |
| Net worth                                                  |                          |                            |                                |             | 196,612,616   |
| Ratio of interest-rate-sensitive assets to liabilities (%) |                          |                            |                                |             | 103.26        |
| Ratio of interest rate sensitivity gap to net worth (%)    |                          |                            |                                |             | 22.87         |

December 31, 2013

Unit : In Thousands of New Taiwan Dollars , %

| Items                                                      | 1~90 days<br>(inclusive) | 91~180 days<br>(inclusive) | 181 days~1 year<br>(inclusive) | Over 1 year | Total         |
|------------------------------------------------------------|--------------------------|----------------------------|--------------------------------|-------------|---------------|
| Interest rate sensitive assets                             | \$ 1,163,196,896         | 58,885,343                 | 47,314,092                     | 67,942,500  | 1,337,338,831 |
| Interest rate sensitive liabilities                        | 484,182,849              | 697,325,075                | 95,546,629                     | 28,796,289  | 1,305,850,842 |
| Interest rate sensitivity gap                              | 679,014,047              | (638,439,732)              | (48,232,537)                   | 39,146,211  | 31,487,989    |
| Net worth                                                  |                          |                            |                                |             | 146,850,762   |
| Ratio of interest-rate-sensitive assets to liabilities (%) |                          |                            |                                |             | 102.41        |
| Ratio of interest rate sensitivity gap to net worth (%)    |                          |                            |                                |             | 21.44         |

Note :

1. The aforementioned are the Bank's position denominated in NTD, and do not include contingent asset or liabilities.
2. Interest rate sensitive assets and liabilities are the interest-earning asset or interest-bearing liabilities whose revenue or costs are affected by interest rate change.
3. Interest rate sensitivity gap= Interest rate sensitive assets - Interest rate sensitive liabilities
4. Ratio of interest rate sensitive assets to liabilities = Interest rate sensitive assets / Interest-rate-sensitive liabilities (denominated in NTD)

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(B) Sensitivity analysis of interest rate for assets and liabilities (USD)

December 31, 2014

Unit : In Thousands of U.S. Dollars, %

| Items                                                      | 1~90 days<br>(inclusive) | 91~180 days<br>(inclusive) | 181 days~1 year<br>(inclusive) | Over 1 year | Total      |
|------------------------------------------------------------|--------------------------|----------------------------|--------------------------------|-------------|------------|
| Interest rate sensitive assets                             | \$ 12,108,479            | 891,022                    | 371,141                        | 193,863     | 13,564,505 |
| Interest rate sensitive liabilities                        | 5,189,503                | 7,797,518                  | 1,313,693                      | 18,074      | 14,318,788 |
| Interest rate sensitivity gap                              | 6,918,976                | (6,906,496)                | (942,552)                      | 175,789     | (754,283)  |
| Net worth                                                  |                          |                            |                                |             | 6,198,771  |
| Ratio of interest-rate-sensitive assets to liabilities (%) |                          |                            |                                |             | 94.73      |
| Ratio of interest rate sensitivity gap to net worth (%)    |                          |                            |                                |             | (12.17)    |

December 31, 2013

Unit : In Thousands of U.S. Dollars, %

| Items                                                      | 1~90 days<br>(inclusive) | 91~180 days<br>(inclusive) | 181 days~1 year<br>(inclusive) | Over 1 year | Total      |
|------------------------------------------------------------|--------------------------|----------------------------|--------------------------------|-------------|------------|
| Interest rate sensitive assets                             | \$ 9,959,112             | 886,035                    | 393,740                        | 184,087     | 11,422,974 |
| Interest rate sensitive liabilities                        | 4,198,191                | 7,027,461                  | 893,945                        | 5,065       | 12,124,662 |
| Interest rate sensitivity gap                              | 5,760,921                | (6,141,426)                | (500,205)                      | 179,022     | (701,688)  |
| Net worth                                                  |                          |                            |                                |             | 4,903,197  |
| Ratio of interest-rate-sensitive assets to liabilities (%) |                          |                            |                                |             | 94.21      |
| Ratio of interest rate sensitivity gap to net worth (%)    |                          |                            |                                |             | (14.31)    |

Note :

1. The aforementioned are the Bank's position denominated in USD, and do not include contingent asset or liabilities.
2. Interest rate sensitive assets and liabilities are the interest-earning asset or interest-bearing liabilities whose revenue or costs are affected by interest rate change.
3. Interest rate sensitivity gap= Interest rate sensitive assets – Interest rate sensitive liabilities
4. Ratio of interest rate sensitive assets to liabilities = Interest rate sensitive assets / Interest rate sensitive liabilities (denominated in USD)

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

2. Credit Risk Management

A. Definition and sources of credit risk management

Credit risk of the Bank and its subsidiaries is the risk of financial loss if a client, guarantor or counterparty fails to meet its contractual obligations. Credit risk arises from both on-balance-sheet items and off-balance-sheet items. On-balance-sheet items include Loan and Credit Card, Due from Central Bank and Call loans to banks, Debt Investment and Derivatives Transaction and so on. Off-balance-sheet items mainly include Guarantees, Bank Acceptance, Letter of Credit and Loan Commitments.

B. Objectives of Credit Risk Management

The objective of credit risk management of the Bank and its subsidiaries is minimizing the potential financial losses by appropriate strategies, policies and procedures. By strengthening credit risk management framework, which is transparent, systematic, professional and well-established, credit risk management is rooted in its corporate governance to reinforce business performance and improve shareholder's equity.

C. Credit Risk Management Process and Credit Risk Measurement

a. Credit risk Management Process

(A) Risk Identification

Credit risk comes from the default risk and significant decline in credit quality of a credit client, change on collateral value or the default risk of derivatives counterparty. Credit risk factors identification shall consider not only internal business operations but also external environmental changes.

(B) Risk Measurement

In order to appropriately evaluate and monitor obligor's credit risk, the Bank and its subsidiaries implement the internal rating system factored in the characteristics of obligors and products to quantify it. The corresponding policies and procedures are established and the regular model validation mechanism is executed to ensure the appropriateness and effectiveness of the model. Credit risk management policy and experienced credit officers' judgment supplement the credit rating application on credit approval, facility management and performance analysis, etc.

(C) Risk Monitoring

To ensure credit risk is under control, the Bank and its subsidiaries have established credit risk limit management mechanism and set up the information management system to monitor the credit risk

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portfolio and risk concentration situation. The Bank and its subsidiaries have developed comprehensive credit process, such as credit extension and annual review procedure, loan review mechanism, guideline for early-warning and watch-list accounts, guideline for collateral appraisal and management, rules of pre-settlement risk mitigation, procedure for bad loan management, guideline for provision allowance and so on to reduce the probability of loss and ensure our claim on exposure.

**(D) Risk Reporting**

Risk management unit periodically prepares credit risk portfolio management report and submits these reports to senior management. The reports disclose the Bank and its subsidiaries' credit risk profile from various dimensions, such as credit quality, portfolio concentration, industry sector exposure, scorecard model validation result, etc.

**b. Measurement of Credit Risk**

**(A) Internal Rating System**

The development of internal rating system and the estimation of parameters for credit risk measurement are based on the Bank and its subsidiaries' internal historical data and the experience of internal experts. The three major risk components include Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), which are used to measure the expected loss and unexpected loss, to assist the Bank and its subsidiaries in their stable growth of long-term operation.

**(a) Probability of default**

The Bank and its subsidiaries' institutional banking group has developed various scorecard models for Jumbo, Middle, Small and Medium Enterprise, Real Estate Developer, etc. based on obligor's characteristics, including exposure types, industrial characteristics, revenue scales, and the correspondent with the Bank and its subsidiaries. The Bank and its subsidiaries also develop a masterscale to segment obligor's default risk; each segment of the masterscale is associated with a predefined one-year forward-looking probability of default. As for retail banking group, we also developed the risk segmentation with predefined one-year forward-looking probability of default, which is developed according to obligor's risk characteristics, such as credit score, and delinquency status.

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(b) Loss given default

CTBC institutional banking group calculates the parameters of LGD, such as Collateral Recovery Rate, based on the product characteristics, collateral types, and guarantee forms, etc. The parameters are used to estimate the LGD for each facility. CTBC retail banking group established the LGD segmentation with long-run default-weighted average LGD, which is developed according to the product characteristics and obligor's payment behavior, such as Loan-to-value, exposure, collateral type, payment status, etc.

(c) Exposure at default

Exposure at default is calculated by current outstanding plus potential extra outstanding at default. The credit conversion factor (CCF) for potential extra outstanding at default is calculated by taking the facility commitment, usage ratio, loan outstanding and headroom into consideration. For off-balance-sheet exposure, CCF is used to estimate the portion of off-balance-sheet exposure converted into on-balance-sheet if default.

(B) Stress Test

Credit risk stress test mechanism is used to control the plausible and exceptional risk. Stress testing helps the Bank and its subsidiaries aware of the possible change of risk component resulting from stress event, and assesses the amount of capital needed to absorb losses or plan remedial actions to mitigate the impact of exceptional loss when such incident occurs.

There are two stress testing approaches -“Sensitivity Analysis” and “Scenario analysis”. Stress test scenarios are set by Senior Management Meeting. The stress testing is conducted periodically or on ad-hoc basis if significant external environment changes. The result of stress test should be approved by senior management and board of directors.

D. Mitigation of Credit Risk

a. Collateral Management

In assessing the credit extension, the business prospect, future cash flow, and repayment ability and willingness of an obligor are the main factors for determining the repayment capability. However, for the creditor's sake, the Bank and its subsidiaries, under government regulations, could ask the obligor or a third party to deliver pledge of real estate, chattel, or securities as collateral which could be disposed for recovering the creditor's right if the obligor defaults. The Bank and its subsidiaries established several guidelines with respect to loan to value, collateral types, appraisement, and



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collateral insurance, so that we can maintain good standing value in case of disposing collaterals timely.

b. Pre-settlement risk mitigation

For pre-settlement risk, the Bank and its subsidiaries might take mitigation actions such as calling for additional collateral (or margin), signing a netting agreement or signing an early determination agreement so as to reduce the credit loss.

c. Post-lending loan review mechanisms

Post-lending loan review mechanism refers that the Bank and its subsidiaries periodically monitor customer's usage of fund, performance and repayment capability so as to control the change of customer's risk. The review frequency and content depend on the risk grade of customers. The Bank and its subsidiaries stipulated Guideline for Loan Reviews based on the lending principle issued by The Bankers Association of The Republic of China and Credit Officer System established by the Bank and its subsidiaries. Loan review items cover change of borrower's business, analysis of relationship with banks, change in operation condition, change of the collateral value, change of bank debt, the proceeds in accordance with funding purpose, and change of repayment sources and so on. If there is significant change of obligor's operating condition or credit profile, the credit grade will be re-rated and unused facility might be adjusted depending on the situation.

d. Credit Risk Assurance Review

In order to ensure the adequacy of entire credit risk management and control mechanisms, credit risk portfolio and credit risk management process are assessed, reviewed, monitored and examined periodically by the Bank and its subsidiaries, to assist the Bank and its subsidiaries in their stable growth of long-term operation.

e. External guarantee

In order to enhance the credit for weak small and medium business borrowers and risk mitigation for the unsecured exposure of small and medium business borrower, external guarantee provided by R.O.C SMEG fund approved by government is one of the eligible guarantees.

f. Concentrations Risk Management

Besides periodic and intermittent monitoring of various risk components' credit risk exposure via different relevant credit risk management reports, the Bank and its subsidiaries have risk limit control mechanism, effective after approval by the board of directors, at the risk level of asset portfolio and singular conglomerate, considering that changes in external macro environment are likely to introduce concentration risk from clientele of the

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same characteristics.

Dimensions of limit ceiling monitoring include country risk, high risk grade obligors, product types, industry, pre-settlement limit, project limit, collateral, concentration in the same affiliate and trading counterparty, and so on.

**E. Maximum exposure to credit risk**

Without taking collateral or other credit enhancement mitigation effect into account, the maximum exposure to credit risk of on-balance-sheet financial assets is equal to their carrying values.

Please refer to Note 6 (AR)(3)G. for off-balance sheet financial instruments' maximum exposure to credit risks maturity analysis.

**F. Concentrations of credit risk**

Significant concentrations of credit risk occur when there are exposures, significant enough to threaten a Bank's security or its ability to maintain core businesses, to an individual counterparty to a transaction or a number of related counterparties engage in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentrations of credit risk originate from assets, liabilities, and off-balance-sheet items by means of performing an obligation to deliver products or service, execution of a trade, or combination of cross-classification exposures. The Bank and its subsidiaries have proper internal policies, systems, and controls to recognize, measure, monitor, and control concentrations of credit risk. The following table illustrates the diversification of the loan portfolio among industry sectors and geographical regions of the Bank and its subsidiaries.

**a. By Industry**

| December 31, 2014                   |                       |                    |                    |                    |                    |                    |                          |                  |                      |
|-------------------------------------|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------------|------------------|----------------------|
|                                     | Individual<br>Clients | Service            | Public Sector      | High Tech          | Real Estate        | Manufacturing      | Financial<br>Institution | Others           | Total                |
| Receivables—credit card             | \$ 59,638,764         | -                  | -                  | -                  | -                  | -                  | -                        | -                | 59,638,764           |
| Receivables—Factoring               | -                     | 1,750,527          | 8,694              | 10,083,804         | -                  | 1,301,682          | 68,780,376               | 851,139          | 82,776,222           |
| Loans                               |                       |                    |                    |                    |                    |                    |                          |                  |                      |
| -Consumer loans                     | 465,924,705           | -                  | -                  | -                  | -                  | -                  | -                        | -                | 465,924,705          |
| -Corporate loans                    | 50,084,543            | 49,555,062         | 168,335,987        | 73,052,825         | 42,480,808         | 79,395,263         | 15,050,380               | 288,854          | 478,243,722          |
| -Micro-business loans               | 13,174,739            | 1,057,487          | -                  | 214,680            | 273,153            | 544,337            | 40,714                   | 762,198          | 16,067,308           |
| -Foreign currency loans             | 256,487,408           | 191,515,973        | 3,459,455          | 57,383,620         | 115,984,731        | 174,479,454        | 66,419,746               | 7,163,930        | 872,894,317          |
| -Non-accrual loans                  | 4,463,020             | 7,745,334          | -                  | 1,042,511          | 903,038            | 1,298,825          | 38,915                   | 127,148          | 15,618,791           |
| -Adjustment of discount and premium | (141,558)             | (593,024)          | (1,660)            | (36,335)           | (242,476)          | (165,910)          | (164,167)                | (249,500)        | (1,594,630)          |
| Other financial assets              | 91,707                | -                  | -                  | -                  | -                  | 13,873             | -                        | -                | 105,580              |
| Total                               | <u>\$ 849,723,328</u> | <u>251,031,359</u> | <u>171,802,476</u> | <u>141,741,105</u> | <u>159,399,254</u> | <u>256,867,524</u> | <u>150,165,964</u>       | <u>8,943,769</u> | <u>1,989,674,779</u> |

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|                                                                | December 31, 2014     |                   |                       |                    |                    |
|----------------------------------------------------------------|-----------------------|-------------------|-----------------------|--------------------|--------------------|
|                                                                | Public Sector         | Corporate         | Financial Institution | Individual Clients | Total              |
| Available-for-sale financial assets — debt securities          | \$ 468,519,000        | 7,913,421         | 55,165,015            | 9,177,213          | 540,774,649        |
| Derivative financial assets — hedging                          | -                     | -                 | 1,499,486             | -                  | 1,499,486          |
| Held-to-maturity financial assets                              | 52,711,543            | 3,810,290         | 14,183,413            | -                  | 70,705,246         |
| Other financial assets — debt investment without active market | -                     | 17,647,759        | -                     | -                  | 17,647,759         |
| Total                                                          | <u>\$ 521,230,543</u> | <u>29,371,470</u> | <u>70,847,914</u>     | <u>9,177,213</u>   | <u>630,627,140</u> |

|                                     | December 31, 2013     |                    |                    |                    |                   |                    |                       |                  |                      |
|-------------------------------------|-----------------------|--------------------|--------------------|--------------------|-------------------|--------------------|-----------------------|------------------|----------------------|
|                                     | Individual Clients    | Service            | Public Sector      | High Tech          | Real Estate       | Manufacturing      | Financial Institution | Others           | Total                |
| Receivables — credit card           | \$ 58,839,549         | -                  | -                  | -                  | -                 | -                  | -                     | -                | 58,839,549           |
| Receivables — Factoring             | -                     | 1,509,709          | 1,274              | 15,842,638         | -                 | 1,448,009          | 66,249,362            | 184,403          | 85,235,395           |
| Loans                               |                       |                    |                    |                    |                   |                    |                       |                  |                      |
| -Consumer loans                     | 456,158,201           | -                  | -                  | -                  | -                 | -                  | -                     | -                | 456,158,201          |
| -Corporate loans                    | 45,056,229            | 37,646,601         | 172,578,515        | 69,528,978         | 36,658,558        | 70,037,929         | 15,980,071            | 23,188           | 447,510,069          |
| -Micro-business loans               | 9,351,356             | 600,924            | -                  | 123,158            | 152,592           | 295,316            | 33,867                | 592,934          | 11,150,147           |
| -Foreign currency loans             | 15,793,402            | 77,954,745         | 3,749,310          | 51,366,542         | 54,636,619        | 130,178,219        | 33,429,423            | 3,747,495        | 370,855,755          |
| -Non-accrual loans                  | 953,223               | 1,465,895          | -                  | 1,012,541          | 35,871            | 998,497            | 177,737               | 33,896           | 4,677,660            |
| -Adjustment of discount and premium | (96,068)              | (163,456)          | (2,016)            | (45,911)           | (80,907)          | (148,821)          | (60,206)              | (272,186)        | (869,571)            |
| Other financial assets              | 114,527               | -                  | -                  | -                  | 96,105            | -                  | -                     | -                | 210,632              |
| Total                               | <u>\$ 586,170,419</u> | <u>119,014,418</u> | <u>176,327,083</u> | <u>137,827,946</u> | <u>91,498,838</u> | <u>202,809,149</u> | <u>115,810,254</u>    | <u>4,309,730</u> | <u>1,433,767,837</u> |

|                                                       | December 31, 2013     |                  |                       |                    |
|-------------------------------------------------------|-----------------------|------------------|-----------------------|--------------------|
|                                                       | Public Sector         | Corporate        | Financial Institution | Total              |
| Available-for-sale financial assets — debt securities | \$ 286,332,996        | 187,672          | 3,514,483             | 290,035,151        |
| Derivative financial assets — hedging                 | -                     | -                | 910,113               | 910,113            |
| Held-to-maturity financial assets                     | 47,906,201            | 3,238,906        | 10,138,634            | 61,283,741         |
| Total                                                 | <u>\$ 334,239,197</u> | <u>3,426,578</u> | <u>14,563,230</u>     | <u>352,229,005</u> |

**b. By Area**

|                                                       | December 31, 2014       |                    |                         |                   |                      |
|-------------------------------------------------------|-------------------------|--------------------|-------------------------|-------------------|----------------------|
|                                                       | Taiwan                  | North America      | Asia (excluding Taiwan) | Others            | Total                |
| Available-for-sale financial assets — debt securities | \$ 320,444,605          | 50,470,922         | 139,536,925             | 30,322,197        | 540,774,649          |
| Derivative financial assets — hedging                 | 86,813                  | -                  | -                       | 1,412,673         | 1,499,486            |
| Receivables — credit card                             | 59,638,764              | -                  | -                       | -                 | 59,638,764           |
| Receivables — factoring                               | 7,884,744               | 784,785            | 71,543,406              | 2,563,287         | 82,776,222           |
| Loans                                                 |                         |                    |                         |                   |                      |
| Consumer finance                                      |                         |                    |                         |                   |                      |
| — Mortgage loans                                      | 363,754,381             | -                  | -                       | -                 | 363,754,381          |
| — Automobile loans                                    | 1,273                   | -                  | -                       | -                 | 1,273                |
| — Consumer loans                                      | 102,169,051             | -                  | -                       | -                 | 102,169,051          |
| Corporate finance                                     |                         |                    |                         |                   |                      |
| — Corporate loans                                     | 474,546,123             | -                  | 3,697,599               | -                 | 478,243,722          |
| — Micro-business loans                                | 16,067,308              | -                  | -                       | -                 | 16,067,308           |
| Foreign currency loans                                | 63,854,421              | 74,766,374         | 720,340,928             | 13,932,594        | 872,894,317          |
| Non-accrual loans                                     | 2,524,233               | 120,926            | 12,973,632              | -                 | 15,618,791           |
| Adjustment of discount and premium                    | (290,377)               | (12,390)           | (1,041,566)             | (250,297)         | (1,594,630)          |
| Held-to-maturity financial assets                     | 44,990,777              | 77,865             | 22,891,268              | 2,745,336         | 70,705,246           |
| Other financial assets                                | 91,707                  | -                  | 15,777,022              | 1,884,610         | 17,753,339           |
| Total                                                 | <u>\$ 1,455,763,823</u> | <u>126,208,482</u> | <u>985,719,214</u>      | <u>52,610,400</u> | <u>2,620,301,919</u> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

|                                                       | <b>December 31, 2013</b> |                      |                                    |                   |                      |
|-------------------------------------------------------|--------------------------|----------------------|------------------------------------|-------------------|----------------------|
|                                                       | <b>Taiwan</b>            | <b>North America</b> | <b>Asia (excluding<br/>Taiwan)</b> | <b>Others</b>     | <b>Total</b>         |
| Available-for-sale financial assets — debt securities | \$ 273,789,800           | 8,377,091            | 6,631,909                          | 1,236,351         | 290,035,151          |
| Derivative financial assets — hedging                 | 91,326                   | -                    | -                                  | 818,787           | 910,113              |
| Receivables — credit card                             | 58,839,549               | -                    | -                                  | -                 | 58,839,549           |
| Receivables — factoring                               | 7,167,308                | 795,008              | 76,006,872                         | 1,266,207         | 85,235,395           |
| Loans                                                 |                          |                      |                                    |                   |                      |
| Consumer finance                                      |                          |                      |                                    |                   |                      |
| — Mortgage loans                                      | 360,320,143              | -                    | -                                  | -                 | 360,320,143          |
| — Automobile loans                                    | 1,665                    | -                    | -                                  | -                 | 1,665                |
| — Consumer loans                                      | 95,836,393               | -                    | -                                  | -                 | 95,836,393           |
| Corporate finance                                     |                          |                      |                                    |                   |                      |
| — Corporate loans                                     | 446,552,311              | -                    | 957,758                            | -                 | 447,510,069          |
| — Micro-business loans                                | 11,150,147               | -                    | -                                  | -                 | 11,150,147           |
| Foreign currency loans                                | 57,751,158               | 65,141,819           | 238,220,766                        | 9,742,012         | 370,855,755          |
| Non-accrual loans                                     | 3,444,643                | 68,997               | 1,164,020                          | -                 | 4,677,660            |
| Adjustment of discount and premium                    | (261,811)                | (19,684)             | (302,884)                          | (285,192)         | (869,571)            |
| Held-to-maturity financial assets                     | 43,427,131               | -                    | 15,414,810                         | 2,441,800         | 61,283,741           |
| Other financial assets                                | 114,527                  | 96,105               | -                                  | -                 | 210,632              |
| <b>Total</b>                                          | <b>\$ 1,358,224,290</b>  | <b>74,459,336</b>    | <b>338,093,251</b>                 | <b>15,219,965</b> | <b>1,785,996,842</b> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**G. Credit quality and impairment analysis of financial assets**

Some financial assets held by the Bank and its subsidiaries, such as cash and equivalent cash, due from central bank, call loans to banks, financial assets measured at fair value through profit or loss, securities purchased under reverse repurchase agreements, refundable deposits, operational guarantee deposits, and settlement fund, are excluded from this analysis since the counterparty is normally with good credit quality and can be considered as low credit risk. Below tables provide the credit quality analysis for the rest of financial assets.

| Item                                                  | December 31, 2014             |                      |                 |               |                       |                      |                 |             |            |            |               |
|-------------------------------------------------------|-------------------------------|----------------------|-----------------|---------------|-----------------------|----------------------|-----------------|-------------|------------|------------|---------------|
|                                                       | Neither Past due nor impaired |                      |                 |               | Past due not impaired |                      |                 |             |            |            |               |
|                                                       | Investment grade              | Sub-investment grade | High Risk Grade | Subtotal(A)   | Investment grade      | Sub-investment grade | High Risk Grade | Subtotal(B) |            |            |               |
| Available-for-sale financial assets — debt securities | \$ 491,685,518                | 48,640,622           | 129,899         | 540,456,039   | -                     | -                    | -               | -           | 318,610    | 5,282      | 540,769,367   |
| Derivative financial assets—hedging                   | 1,337,641                     | 161,845              | -               | 1,499,486     | -                     | -                    | -               | -           | -          | -          | 1,499,486     |
| Receivables — credit card                             | 45,325,647                    | 7,904,154            | 2,009,863       | 55,239,664    | 139,804               | 135,539              | 295,869         | 571,212     | -          | 1,197,489  | 58,441,275    |
| Receivables — factoring                               | 62,266,987                    | 17,077,844           | 3,142,638       | 82,487,469    | 102,344               | 83,706               | 40,894          | 226,944     | 61,809     | 109,697    | 82,666,525    |
| Loans                                                 |                               |                      |                 |               |                       |                      |                 |             |            |            |               |
| Consumer finance                                      |                               |                      |                 |               |                       |                      |                 |             |            |            |               |
| — Mortgage loans                                      | 336,477,220                   | 4,274,628            | 537,055         | 341,288,903   | 13,753,959            | 1,265,735            | 458,989         | 15,478,683  | -          | 621,242    | 363,133,139   |
| — Automobile loans                                    | -                             | -                    | -               | -             | -                     | -                    | -               | -           | -          | 130        | 1,143         |
| — Consumer loans                                      | 69,502,443                    | 16,275,194           | 3,131,444       | 88,909,081    | 2,634,048             | 1,245,603            | 1,092,802       | 4,972,453   | -          | 2,644,408  | 99,524,643    |
| Corporate finance                                     |                               |                      |                 |               |                       |                      |                 |             |            |            |               |
| — Corporate loans                                     | 254,790,211                   | 158,065,868          | 54,716,234      | 467,572,313   | 2,000                 | 27,960               | 135,460         | 165,420     | 10,505,989 | 1,729,253  | 476,514,469   |
| — Micro-business loans                                | 11,189,238                    | 3,068,945            | 1,175,715       | 15,433,898    | 257,232               | 21,173               | 19,241          | 297,646     | 5,515      | 15,528     | 16,051,780    |
| Foreign currency loans                                | 372,646,927                   | 339,651,738          | 151,305,299     | 863,603,964   | 394,941               | 450,440              | 2,175,950       | 3,021,331   | 4,370,725  | 5,127,595  | 867,766,722   |
| Non-accrual loans                                     | -                             | -                    | -               | -             | -                     | 42,380               | -               | 42,380      | 10,284,154 | 6,381,940  | 9,236,851     |
| Adjustment of discount and premium                    | (545,687)                     | (712,297)            | (290,919)       | (1,548,903)   | 427                   | (183)                | (86)            | 158         | (49,381)   | (979)      | (1,593,651)   |
| Held-to-maturity financial assets—net                 | 25,203,898                    | 45,500,875           | -               | 70,704,773    | -                     | -                    | -               | -           | 473        | 473        | 70,704,773    |
| Other financial assets                                | 7,815,932                     | 4,415,971            | 5,415,856       | 17,647,759    | -                     | -                    | -               | -           | 13,873     | 133,850    | 17,619,489    |
| Total                                                 | \$ 1,677,695,975              | 644,325,387          | 221,273,084     | 2,543,294,446 | 17,284,755            | 3,272,353            | 4,219,119       | 24,776,227  | 25,511,767 | 17,965,908 | 2,602,336,011 |

Note: The balances of impairment allowance, as shown above, are in compliance with the IFRSs accepted by FSC.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

| Item                                                  | December 31, 2013             |                      |                 |               |                       |                      |                 |             |            |            |            |                                         |
|-------------------------------------------------------|-------------------------------|----------------------|-----------------|---------------|-----------------------|----------------------|-----------------|-------------|------------|------------|------------|-----------------------------------------|
|                                                       | Neither Past due nor impaired |                      |                 |               | Past due not impaired |                      |                 |             |            |            |            |                                         |
|                                                       | Investment grade              | Sub-investment grade | High Risk Grade | Subtotal(A)   | Investment grade      | Sub-investment grade | High Risk Grade | Subtotal(B) |            |            |            |                                         |
| Available-for-sale financial assets — debt securities | \$ 237,080,176                | 52,429,568           | -               | 289,509,744   | -                     | -                    | -               | -           | 525,407    | -          | 21,246     | Total(A)+(B)-(C)+(D)-(E)<br>290,013,905 |
| Derivative financial assets — hedging                 | 910,113                       | -                    | -               | 910,113       | -                     | -                    | -               | -           | -          | -          | -          | 910,113                                 |
| Receivables — credit card                             | 43,788,883                    | 8,086,983            | 2,107,893       | 53,983,759    | 128,795               | 123,955              | 291,537         | 544,287     | -          | 4,311,503  | 1,325,701  | 57,513,848                              |
| Receivables — factoring                               | 60,817,560                    | 19,259,503           | 4,452,154       | 84,529,217    | 317,088               | 50,868               | 276,413         | 644,369     | 61,809     | -          | 115,840    | 85,119,555                              |
| Loans                                                 |                               |                      |                 |               |                       |                      |                 |             |            |            |            |                                         |
| Consumer finance                                      |                               |                      |                 |               |                       |                      |                 |             |            |            |            |                                         |
| — Mortgage loans                                      | 342,550,092                   | 5,190,302            | 682,471         | 348,422,865   | 1,703,420             | 1,293,595            | 587,353         | 3,584,368   | -          | 8,312,910  | 1,749,063  | 358,571,080                             |
| — Automobile loans                                    | -                             | -                    | -               | -             | -                     | -                    | -               | -           | -          | 1,665      | 184        | 1,481                                   |
| — Consumer loans                                      | 66,485,596                    | 15,142,238           | 3,112,347       | 84,741,181    | 434,184               | 581,994              | 1,000,397       | 2,016,575   | -          | 9,078,637  | 2,749,221  | 93,087,172                              |
| Corporate finance                                     |                               |                      |                 |               |                       |                      |                 |             |            |            |            |                                         |
| — Corporate loans                                     | 245,788,792                   | 134,066,103          | 53,859,304      | 433,714,199   | -                     | 59,075               | 67,072          | 126,147     | 13,669,723 | -          | 2,147,731  | 445,362,338                             |
| — Micro-business loans                                | 7,878,857                     | 2,061,849            | 745,067         | 10,685,773    | 8,519                 | -                    | 3,325           | 11,844      | 4,198      | 448,332    | 11,118     | 11,139,029                              |
| Foreign currency loans                                | 89,343,311                    | 200,688,963          | 76,757,420      | 366,789,694   | 47,956                | 194,191              | 711,220         | 953,367     | 3,001,782  | 110,912    | 2,445,188  | 368,410,567                             |
| Non-accrual loans                                     | -                             | -                    | -               | -             | -                     | -                    | -               | -           | 3,727,609  | 950,051    | 1,902,616  | 2,775,044                               |
| Adjustment of discount and premium                    | (245,150)                     | (480,954)            | (112,921)       | (839,025)     | 226                   | 10                   | 6,635           | 6,871       | (43,594)   | 6,177      | (1,056)    | (868,515)                               |
| Held-to-maturity financial assets — net               | 41,842,818                    | 19,329,685           | -               | 61,172,503    | -                     | -                    | -               | -           | 451        | 110,787    | 8,807      | 61,274,934                              |
| Other financial assets                                | -                             | -                    | -               | -             | -                     | -                    | -               | -           | 96,105     | 114,527    | 99,004     | 111,628                                 |
| Total                                                 | \$ 1,136,241,048              | 455,775,240          | 141,603,735     | 1,733,620,023 | 2,640,188             | 2,303,688            | 2,943,952       | 7,887,828   | 21,043,490 | 23,445,501 | 12,574,663 | 1,773,422,179                           |

Note: The balances of impairment allowance, as shown above, are in compliance with the IFRSs accepted by FSC.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

H. Aging analysis on past due but not impaired financial assets

Past due but not impaired loans might result from some temporary administration reasons so the customer is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown the potential loss, according to internal credit risk assets impairment evaluation guideline, a less than 90-day past due loan is typically not to be treated as impairment.

| <b>December 31, 2014</b>           |                      |                   |                   |                      |                   |
|------------------------------------|----------------------|-------------------|-------------------|----------------------|-------------------|
|                                    | <b>Up to 1 month</b> | <b>1-2 months</b> | <b>2-3 months</b> | <b>Over 3 months</b> | <b>Total</b>      |
| Receivables                        |                      |                   |                   |                      |                   |
| -Credit cards                      | \$ 417,912           | 105,423           | 47,877            | -                    | 571,212           |
| -Factoring                         | 120,712              | 97,319            | 2,045             | 6,868                | 226,944           |
| Loans                              |                      |                   |                   |                      |                   |
| Consumer finance                   |                      |                   |                   |                      |                   |
| -Mortgage loans                    | 15,293,805           | 169,627           | 15,251            | -                    | 15,478,683        |
| -Consumer loans                    | 4,568,917            | 278,052           | 125,484           | -                    | 4,972,453         |
| Corporate finance                  |                      |                   |                   |                      |                   |
| -Corporate loans                   | 165,420              | -                 | -                 | -                    | 165,420           |
| -Micro-business loans              | 293,379              | 3,345             | 922               | -                    | 297,646           |
| Foreign currency loans             | 1,933,390            | 873,529           | 214,412           | -                    | 3,021,331         |
| Non-accrual loans                  | 42,380               | -                 | -                 | -                    | 42,380            |
| Adjustment of discount and premium | 230                  | 14                | (86)              | -                    | 158               |
| <b>Total</b>                       | <b>\$ 22,836,145</b> | <b>1,527,309</b>  | <b>405,905</b>    | <b>6,868</b>         | <b>24,776,227</b> |

| <b>December 31, 2013</b>           |                      |                   |                   |                      |                  |
|------------------------------------|----------------------|-------------------|-------------------|----------------------|------------------|
|                                    | <b>Up to 1 month</b> | <b>1-2 months</b> | <b>2-3 months</b> | <b>Over 3 months</b> | <b>Total</b>     |
| Receivables                        |                      |                   |                   |                      |                  |
| -Credit cards                      | \$ 395,775           | 104,313           | 44,199            | -                    | 544,287          |
| -Factoring                         | 564,552              | 51,397            | 19,898            | 8,522                | 644,369          |
| Loans                              |                      |                   |                   |                      |                  |
| Consumer finance                   |                      |                   |                   |                      |                  |
| -Mortgage loans                    | 3,324,899            | 201,848           | 57,621            | -                    | 3,584,368        |
| -Consumer loans                    | 1,671,219            | 243,544           | 101,812           | -                    | 2,016,575        |
| Corporate finance                  |                      |                   |                   |                      |                  |
| -Corporate loans                   | 126,147              | -                 | -                 | -                    | 126,147          |
| -Micro-business loans              | 9,245                | 2,599             | -                 | -                    | 11,844           |
| Foreign currency loans             | 617,973              | 254,379           | 81,015            | -                    | 953,367          |
| Adjustment of discount and premium | 4,076                | 2,180             | 615               | -                    | 6,871            |
| <b>Total</b>                       | <b>\$ 6,713,886</b>  | <b>860,260</b>    | <b>305,160</b>    | <b>8,522</b>         | <b>7,887,828</b> |



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

I. Impairment analysis on impaired financial assets

|                                                         | December 31, 2014                                |                                                  |                                                      |                                                      |                          |
|---------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|------------------------------------------------------|------------------------------------------------------|--------------------------|
|                                                         | Individually<br>assessed<br>impaired<br>exposure | Collectively<br>assessed<br>impaired<br>exposure | Individually<br>assessed<br>impairment<br>allowances | Collectively<br>assessed<br>impairment<br>allowances | Net impaired<br>Exposure |
| Available-for-sale financial assets-<br>debt investment | \$ 318,610                                       | -                                                | 5,282                                                | -                                                    | 313,328                  |
| Receivables                                             |                                                  |                                                  |                                                      |                                                      |                          |
| -Credit cards                                           | -                                                | 3,827,888                                        | -                                                    | 487,610                                              | 3,340,278                |
| -Factoring                                              | 61,809                                           | -                                                | 61,809                                               | -                                                    | -                        |
| Loans                                                   |                                                  |                                                  |                                                      |                                                      |                          |
| Consumer finance                                        |                                                  |                                                  |                                                      |                                                      |                          |
| -Mortgage loans                                         | -                                                | 6,986,795                                        | -                                                    | 519,644                                              | 6,467,151                |
| -Automobile loans                                       | -                                                | 1,273                                            | -                                                    | 130                                                  | 1,143                    |
| -Consumer loans                                         | -                                                | 8,287,517                                        | -                                                    | 1,108,070                                            | 7,179,447                |
| Corporate finance                                       |                                                  |                                                  |                                                      |                                                      |                          |
| -Corporate loans                                        | 10,505,989                                       | -                                                | 1,306,201                                            | -                                                    | 9,199,788                |
| -Micro-business loans                                   | 5,515                                            | 330,249                                          | 2,369                                                | 685                                                  | 332,710                  |
| Foreign currency loans                                  | 4,370,725                                        | 1,898,297                                        | 1,114,682                                            | 95,018                                               | 5,059,322                |
| Non-accrual loans                                       | 10,284,154                                       | 5,292,257                                        | 4,178,816                                            | 2,435,249                                            | 8,962,346                |
| Adjustment of discount and<br>premium                   | (49,381)                                         | 3,496                                            | -                                                    | -                                                    | (45,885)                 |
| Held-to-maturity financial assets — net                 | 473                                              | -                                                | -                                                    | -                                                    | 473                      |
| Other financial assets                                  | 13,873                                           | 91,707                                           | 6,937                                                | 79,562                                               | 19,081                   |
| Total                                                   | <u>\$ 25,511,767</u>                             | <u>26,719,479</u>                                | <u>6,676,096</u>                                     | <u>4,725,968</u>                                     | <u>40,829,182</u>        |

|                                                         | December 31, 2013                                |                                                  |                                                      |                                                      |                          |
|---------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|------------------------------------------------------|------------------------------------------------------|--------------------------|
|                                                         | Individually<br>assessed<br>impaired<br>exposure | Collectively<br>assessed<br>impaired<br>exposure | Individually<br>assessed<br>impairment<br>allowances | Collectively<br>assessed<br>impairment<br>allowances | Net impaired<br>Exposure |
| Available-for-sale financial assets-<br>debt investment | \$ 525,407                                       | -                                                | 21,246                                               | -                                                    | 504,161                  |
| Receivables                                             |                                                  |                                                  |                                                      |                                                      |                          |
| -Credit cards                                           | -                                                | 4,311,503                                        | -                                                    | 566,516                                              | 3,744,987                |
| -Factoring                                              | 61,809                                           | -                                                | 61,809                                               | -                                                    | -                        |
| Loans                                                   |                                                  |                                                  |                                                      |                                                      |                          |
| Consumer finance                                        |                                                  |                                                  |                                                      |                                                      |                          |
| -Mortgage loans                                         | -                                                | 8,312,910                                        | -                                                    | 762,515                                              | 7,550,395                |
| -Automobile loans                                       | -                                                | 1,665                                            | -                                                    | 184                                                  | 1,481                    |
| -Consumer loans                                         | -                                                | 9,078,637                                        | -                                                    | 1,285,231                                            | 7,793,406                |
| Corporate finance                                       |                                                  |                                                  |                                                      |                                                      |                          |
| -Corporate loans                                        | 13,669,723                                       | -                                                | 1,772,382                                            | -                                                    | 11,897,341               |
| -Micro-business loans                                   | 4,198                                            | 448,332                                          | 2,119                                                | 1,861                                                | 448,550                  |
| Foreign currency loans                                  | 3,001,782                                        | 110,912                                          | 546,307                                              | 7,483                                                | 2,558,904                |
| Non-accrual loans                                       | 3,727,609                                        | 950,051                                          | 1,418,818                                            | 663,663                                              | 2,595,179                |
| Adjustment of discount and<br>premium                   | (43,594)                                         | 6,177                                            | -                                                    | -                                                    | (37,417)                 |
| Held-to-maturity financial assets — net                 | 451                                              | 110,787                                          | 451                                                  | 8,356                                                | 102,431                  |
| Other financial assets                                  | 96,105                                           | 114,527                                          | -                                                    | 99,004                                               | 111,628                  |
| Total                                                   | <u>\$ 21,043,490</u>                             | <u>23,445,501</u>                                | <u>3,823,132</u>                                     | <u>3,394,813</u>                                     | <u>37,271,046</u>        |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

J. Foreclosed properties

Foreclosed properties of the Bank and its subsidiaries are classified under other assets. Please refer to Note 6(Q).

K. Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

a. Asset quality of the Bank and its subsidiaries' non-performing loans and overdue receivables

(A) Asset quality of the Bank and its subsidiaries

Unit : In Thousands of New Taiwan Dollars , %

| Month/ Year                |                       |           | December 31, 2014    |                        |                            |                             |                |
|----------------------------|-----------------------|-----------|----------------------|------------------------|----------------------------|-----------------------------|----------------|
|                            |                       |           | Non-performing loans | Total loans            | Non-performing loans ratio | Allowance for credit losses | Coverage ratio |
| Categories/ Items          |                       |           |                      |                        |                            |                             |                |
| Corporate finance          | Secured               |           | 11,075,249           | 424,439,206            | 2.61%                      | 16,062,138                  | 125.62%        |
|                            | Unsecured (Note 11)   |           | 1,710,903            | 697,066,726            | 0.25%                      |                             |                |
| Consumer finance           | Residential mortgages |           | 1,716,707            | 564,224,674            | 0.30%                      | 5,163,314                   | 300.77%        |
|                            | Cash cards            |           | 93,543               | 3,529,678              | 2.65%                      | 240,139                     | 256.72%        |
|                            | Micro-credit loans    | Original  | 2,224,407            | 103,705,737            | 2.14%                      | 4,762,807                   | 214.12%        |
|                            |                       | Purchase  | -                    | 693                    | - %                        | 4                           | - %            |
|                            | Others                | Secured   | 443,715              | 50,436,756             | 0.88%                      | 907,641                     | 108.23%        |
|                            |                       | Unsecured | 394,872              | 5,345,373              | 7.39%                      |                             |                |
| Total loan business        |                       |           | 17,659,396           | 1,848,748,843          | 0.96%                      | 27,136,043                  | 153.66%        |
|                            |                       |           | Overdue receivables  | Balance of receivables | Delinquency ratio          | Allowance for credit losses | Coverage ratio |
| Credit cards business      |                       |           | 87,989               | 59,642,129             | 0.15%                      | 1,275,061                   | 1,449.11%      |
| Without-recourse factoring |                       |           | -                    | 82,776,222             | - %                        | 615,685                     | - %            |

| Month/ Year                                         |                       |           | December 31, 2013                  |                           |                            |                             |                |
|-----------------------------------------------------|-----------------------|-----------|------------------------------------|---------------------------|----------------------------|-----------------------------|----------------|
| Categories/ Items                                   |                       |           | Non-performing loans               | Total loans               | Non-performing loans ratio | Total loans                 | Coverage ratio |
| Corporate finance                                   | Secured               |           | 2,745,627                          | 245,085,772               | 1.12%                      | 9,564,169                   | 248.02%        |
|                                                     | Unsecured (Note 11)   |           | 1,110,601                          | 572,065,733               | 0.19%                      |                             |                |
| Consumer finance                                    | Residential mortgages |           | 245,280                            | 342,886,357               | 0.07%                      | 3,389,152                   | 1,381.75%      |
|                                                     | Cash cards            |           | 27,197                             | 2,783,191                 | 0.98%                      | 261,282                     | 960.70%        |
|                                                     | Micro-credit loans    | Original  | 560,660                            | 83,700,679                | 0.67%                      | 3,320,157                   | 592.19%        |
|                                                     |                       | Purchase  | 63                                 | 792                       | 7.95%                      | 4                           | 6.35%          |
|                                                     | Others                | Secured   | 15,617                             | 39,013,260                | 0.04%                      | 566,631                     | 206.45%        |
|                                                     |                       | Unsecured | 258,851                            | 4,816,048                 | 5.37%                      |                             |                |
| Total loan business                                 |                       |           | 4,963,896                          | 1,290,351,832             | 0.38%                      | 17,101,395                  | 344.52%        |
|                                                     |                       |           | Overdue receivables                | Balance of receivables    | Delinquency ratio          | Allowance for credit losses | Coverage ratio |
| Credit cards business                               |                       |           | 110,915                            | 58,909,453                | 0.19 %                     | 1,422,632                   | 1,282.63%      |
| Without-recourse factoring                          |                       |           | -                                  | 85,235,395                | - %                        | 461,572                     | - %            |
|                                                     |                       |           | Non-performing loans held for sale | Total loans held for sale | Non-performing loans ratio | Allowance for credit losses | Coverage ratio |
| Other financial assets—loans held for sale (Note 1) |                       |           | 96,105                             | 96,105                    | (Note 1)                   | (Note 1)                    | (Note 1)       |

Note 1: Please refer to Note 6(N) for more information regarding other financial assets- loan held for sale.

Note 2: Non-performing loans represent the amount of overdue loans as reported in accordance with the “Regulations on the Procedures for

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Banking Institutions to Evaluate Assets and Deal with Past Due/Non-performing Loans.” The credit card overdue loans represent the amount of overdue loans as reported in accordance with Jin-Kuan-Yin-(4)-Zi No. 0944000378, dated July 6, 2005.

- Note 3:  $\text{Non-performing loans ratio} = \text{Non-performing loans} \div \text{total loans}$ ;  
 $\text{Credit card delinquency ratio} = \text{Overdue receivables} \div \text{balance of receivables}$ .
- Note 4:  $\text{Coverage ratio for loans} = \text{allowance for credit losses} \div \text{non-performing loans}$ ;  $\text{Coverage ratio for credit card} = \text{allowance for credit losses} \div \text{overdue receivables}$ .
- Note 5: For residential mortgage loans, a borrower provides his/her (or spouse's or minor child's) house as collateral in full and pledges it to the financial institution for the purpose of obtaining funds to purchase property and to construct or repair a house.
- Note 6: Microcredit loans are defined by Jin-Kuan-Yin-(4)-Zi No. 09440010950, dated December 19, 2005, and do not include credit cards or cash cards.
- Note 7: Others in consumer finance are secured and unsecured consumer loans other than residential mortgage loans, cash cards, and microcredit loans, and do not include credit cards.
- Note 8: In accordance with Jin-Kuan-Yin-(5)-Zi No. 094000494, dated July 19, 2005, the amounts of without-recourse factoring will be classified as overdue receivables within 3 months after the date that suppliers or insurance companies resolve not to compensate the loss.
- Note 9: The balances of impairment allowance, as shown above, are calculated in accordance with the IFRSs accepted by FSC and “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans,” and other related regulations. Additionally, the amounts exclude non-accrual loans arising from guarantees. Related allowance for credit losses is recognized under provisions.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Note 10: Supplemental disclosures:

The information below shows supplemental disclosures of the Bank's loans and receivables that may be exempted from reporting as non-performing loans and overdue receivables, respectively.

Unit : In Thousands of New Taiwan Dollars

|                                                                                      | December 31, 2014                                                  |                                                                        | December 31, 2013                                                  |                                                                        |
|--------------------------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------------------|
|                                                                                      | Loans that may be exempted from reporting as a non-performing loan | Receivables that may be exempted from reporting as overdue receivables | Loans that may be exempted from reporting as a non-performing loan | Receivables that may be exempted from reporting as overdue receivables |
| Pursuant to a contract under a debt negotiation plan (Note 1)                        | 150,743                                                            | 91,485                                                                 | 196,058                                                            | 94,119                                                                 |
| Pursuant to a contract under a debt liquidation plan and a debt relief plan (Note 2) | 503,667                                                            | 72,154                                                                 | 443,853                                                            | 74,685                                                                 |
| Total                                                                                | 654,410                                                            | 163,639                                                                | 639,911                                                            | 168,804                                                                |

Note 1: In accordance with Jin-Kuan-Yin-(1)-Zi No. 09510001270, dated April 25, 2006, a bank is required to make supplemental disclosure of credit information which was approved under the "debt coordination mechanism of unsecured consumer debts by the Bankers Association of the R.O.C".

Note 2: In accordance with Jin-Kuan-Yin-(1)-Zi No. 09700318940, dated September 15, 2008, a bank is required to make supplemental disclosure of credit information once debtors apply for pre-negotiation, relief and liquidation under the "Consumer Debt Clearance Act."

Note 11: Those loans that are not 100% backed by collateral are classified as unsecured.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

b. Concentration of the Bank's credit extensions

Unit : In Thousands of New Taiwan Dollars , %

| <b>December 31, 2014</b> |                                                                 |                      |                                                        |
|--------------------------|-----------------------------------------------------------------|----------------------|--------------------------------------------------------|
| <b>Ranking</b>           | <b>Enterprise group by industry sector</b>                      | <b>Credit amount</b> | <b>Credit amount/<br/>stockholders'<br/>equity (%)</b> |
| 1                        | A group. Liquid crystal panel and components manufacturing      | 14,068,900           | 7.16%                                                  |
| 2                        | B group. Liquid crystal panel and components manufacturing      | 11,349,711           | 5.77%                                                  |
| 3                        | C group. Marine shipping                                        | 10,315,135           | 5.25%                                                  |
| 4                        | D group. Print circuits manufacturing                           | 8,322,704            | 4.23%                                                  |
| 5                        | E group. Other retail sale                                      | 7,264,226            | 3.69%                                                  |
| 6                        | F group. Other unclassified electronic components manufacturing | 6,344,377            | 3.23%                                                  |
| 7                        | G group. Integrated circuits manufacturing                      | 6,265,717            | 3.19%                                                  |
| 8                        | H group. Cement products manufacturing                          | 5,463,013            | 2.78%                                                  |
| 9                        | I group. Petroleum and coal products manufacturing              | 5,215,000            | 2.65%                                                  |
| 10                       | J group. Automobile parts manufacturing                         | 5,191,783            | 2.64%                                                  |

| <b>December 31, 2013</b> |                                                                 |                      |                                                        |
|--------------------------|-----------------------------------------------------------------|----------------------|--------------------------------------------------------|
| <b>Ranking</b>           | <b>Enterprise group by industry sector</b>                      | <b>Credit amount</b> | <b>Credit amount/<br/>stockholders'<br/>equity (%)</b> |
| 1                        | A group. Liquid crystal panel and components manufacturing      | 16,767,451           | 11.42%                                                 |
| 2                        | B group. Liquid crystal panel and components manufacturing      | 10,192,049           | 6.94%                                                  |
| 3                        | C group. Marine shipping                                        | 7,766,305            | 5.29%                                                  |
| 4                        | D group. Print circuits manufacturing                           | 7,371,852            | 5.02%                                                  |
| 5                        | K group. Computer manufacturing                                 | 6,731,288            | 4.58%                                                  |
| 6                        | E group. Other retail sale                                      | 6,742,830            | 4.41%                                                  |
| 7                        | L group. Petroleum and chemical industry material manufacturing | 6,132,040            | 4.18%                                                  |
| 8                        | G group. Integrated circuits manufacturing                      | 5,856,586            | 3.99%                                                  |
| 9                        | I group. Petroleum and coal products manufacturing              | 5,720,000            | 3.90%                                                  |
| 10                       | H group. Cement products manufacturing                          | 5,624,290            | 3.83%                                                  |

Note 1: The top ten enterprise groups other than government or state-owned enterprises are ranked according to their total outstanding credit amount. If the borrowers belong to an enterprise group, the aggregate credit balance of the enterprise should be calculated and disclosed as a code number for each such borrower together with an indication of the borrowers' line of business. In addition, if the borrowers are enterprise groups, the enterprise group's industry sector with the maximum exposure to credit risk in its main industry sector should be disclosed, along with the "class" of the industry, in compliance with the Standard Industrial Classification System of the R.O.C. posted by the Directorate- General of Budget, Accounting and Statistics, Executive Yuan, R.O.C.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Note 2: Enterprise group is as defined in Article 6 of the “Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings.”

Note 3: The total outstanding credit amount is the sum of the balances of all loan types (including import and export bill negotiations, loans, overdrafts, short/medium/long-term secured and unsecured loans, margin loans receivable, and non-accrual loans), bills purchased, without-recourse factoring, acceptances receivable, and guarantees receivable.

3. Liquidity Risk Management Mechanism

A. Definition and sources of liquidity risk

Liquidity risk of the Bank and its subsidiaries refers to the risk of inability to obtain funds at a reasonable cost within a reasonable timeframe to meet financial obligations, and thus impact the Bank and its subsidiaries' profits or economic value.

Liquidity risk may stem from external and internal factors, such as undermined payment capability caused by financial market volatility, early withdraws and concerns of creditors or depositors over the Bank's ability to meet payment obligations due to credit, market or operational risk.

B. Objectives of liquidity risk management

There is cost associated with the level of liquidity. Liquidity risk management for the Bank and its subsidiaries aims to satisfy funding needs and maximize profits by allocating assets and liabilities in the most cost effective way within the approved risk tolerance.

C. Management procedures and risk measurement of liquidity risk

Based on asset and liability management policy, the Bank and its subsidiaries set robust management procedures and risk measurement to identify, measure, monitor, and report the liquidity risk. By periodically monitoring the liquidity limit approved by the Board, continuously conducting the development and application of quantitative risk assessment tools, and studying liquidity related issues, the liquidity risk is properly managed. The Bank and its subsidiaries set various limits for managing liquidity risk, including the degree of maturity mismatch on assets and liabilities, funding concentration, and liquidity ratios to assure the Bank and its subsidiaries maintain adequate liquidity status to accommodate cash outflow and financial obligations.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
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Funding Management Unit is entrusted the responsibility to centrally manage the liquidity risk of the Bank and its subsidiaries, and to act as sole window to engage in funding activities. The risk management unit will monitor the liquidity risk independently. The main responsibilities of funding management unit are as follows:

- a. Keep abreast of market condition/ trend, and adjust liquidity gap to conform to approved risk limits using financial instruments with appropriate allocations in amount and maturity.
- b. Maintain adequate stock of liquid assets to meet regulatory requirements and to fulfill the obligations.
- c. Diversify funding instruments and counterparties in order to prevent overdependence on specific funding sources.
- d. Activate Contingency Funding Plan (CFP) and adjust positions when a liquidity crisis is detected.

The liquidity risk monitoring unit periodically conducts the risk reports, which contain the analysis of limit usage and liquidity risk indicators. The risk report with supporting stress test result will periodically be submitted to related risk management meetings. The Bank and its subsidiaries measure liquidity risks by following tools:

- a. Maturity gap analysis: Analyzing maturity mismatch will help understand cash flow gap by time bucket. Liquidity risk could be measured by this analysis together with an assessment of the funding capacity.
- b. Liquidity risk heat map: Liquidity risk indicators can be further developed into an easily understandable map to facilitate systematic monitoring and to effectively highlight changes, causes and impact.
- c. Stress test: The test assesses the liquidity impact from extreme scenarios and allows management to take precautionary measures in anticipation of potential liquidity problems.

**D. Risk mitigation and hedge of liquidity risk**

Through liquidity risk management framework, the Bank and its subsidiaries maintain sufficient liquidity status and robust funding structure. By using rigorous liquidity risk measurement and monitoring, the Bank and its subsidiaries can observe potential issues on liquidity risk and report them to risk meeting or executives of financial holding company for discussion and decision making. Therefore, the responsible units can adjust their strategies based on the decision to avoid liquidity risk. Once the risk limit is exceeded, risk management unit will analyze the cause, then report reaction plans and follow-ups to corresponding authority for approval.



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In addition, the Bank and its subsidiaries have a Liquidity Contingency Plan as guidance to all units when a liquidity crisis emerges. It aims to resolve the crisis in an effective manner by pulling together all resources available to the Bank and its subsidiaries.

**E. Maturity analysis of non-derivatives liabilities**

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

|                                             | December 31, 2014 |             |             |               |             |               |
|---------------------------------------------|-------------------|-------------|-------------|---------------|-------------|---------------|
|                                             | 0~30 days         | 31~90 days  | 91~180 days | 181days~1year | Over 1 year | Total         |
| Deposits from Central Bank and other banks  | \$ 41,740,803     | 3,452,293   | 1,719,207   | 3,022,125     | -           | 49,934,428    |
| Due to Central Bank and other banks         | 293,455           | 8,512,928   | 10,964,481  | 26,910,546    | 7,405,733   | 54,087,143    |
| Securities sold under repurchase agreements | 57,496,933        | 2,167,599   | 566,244     | -             | -           | 60,230,776    |
| Payables                                    | 45,367,898        | 13,042,786  | 10,332,446  | 15,368,438    | 80,578,553  | 164,690,121   |
| Current income tax liabilities              | -                 | -           | 3,094,672   | -             | -           | 3,094,672     |
| Deposits and remittances                    | 1,502,692,399     | 282,660,354 | 197,215,208 | 331,704,485   | 108,354,728 | 2,422,627,174 |
| Financial debentures                        | 265,100           | 16,151,608  | 4,015,100   | 13,829,190    | 64,067,750  | 98,328,748    |
| Other financial liabilities                 | 5,760,651         | 5,302,074   | 7,395,855   | 10,468,993    | 107,498,878 | 136,426,451   |

|                                                                                     | December 31, 2013 |             |             |               |             |               |
|-------------------------------------------------------------------------------------|-------------------|-------------|-------------|---------------|-------------|---------------|
|                                                                                     | 0~30 days         | 31~90 days  | 91~180 days | 181days~1year | Over 1 year | Total         |
| Deposits from Central Bank and other banks                                          | \$ 36,645,466     | 7,927,138   | 814,163     | 2,452,145     | 570,600     | 48,409,512    |
| Due to Central Bank and other banks                                                 | 2,032,365         | 464,682     | 35,671      | 222,014       | 4,629,298   | 7,384,030     |
| Non-derivative financial liabilities measured at fair value through profit and loss | 2,136             | -           | -           | -             | -           | 2,136         |
| Securities sold under repurchase agreements                                         | 57,129,692        | 3,407,707   | 468,185     | 32,610        | -           | 61,038,194    |
| Payables                                                                            | 25,155,203        | 8,244,511   | 6,949,784   | 12,067,292    | 3,643,960   | 56,060,750    |
| Current income tax liabilities                                                      | -                 | -           | 1,420,066   | -             | -           | 1,420,066     |
| Deposits and remittances                                                            | 1,089,214,441     | 198,189,427 | 160,183,382 | 260,675,862   | 22,906,213  | 1,731,169,325 |
| Financial debentures                                                                | -                 | -           | 300,000     | 3,500,000     | 53,673,465  | 57,473,465    |
| Other financial liabilities                                                         | 1,046,602         | 1,543,372   | 1,001,585   | 1,079,833     | 10,985,263  | 15,656,655    |

Note: For demand deposits included in “Deposit and remittances,” the amount will be disclosed in the earliest period since such deposits can be withdrawn at anytime.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**F. Maturity analysis of derivatives liabilities**

**a. Net settled derivatives**

Net settled derivatives engaged by the Bank and its subsidiaries include but not limited to:

Foreign exchange derivatives: non-deliverable forwards and net settled FX options;

Interest rate derivatives: forward rate agreement, interest rate swaps, and interest rate futures;

Other derivatives: equity options and commodity futures.

For derivatives held by trading purpose, the amount will be disclosed in the earliest period with fair value to reflect the nature of short-term trading behavior; for hedging derivatives, the amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheets. The maturity analysis of net settled derivatives liabilities is as follows:

|                                                                                 |    | December 31, 2014   |                  |                |               |                |
|---------------------------------------------------------------------------------|----|---------------------|------------------|----------------|---------------|----------------|
|                                                                                 |    | 0~30 days           | 31~90 days       | 91~180 days    | 181days~1year | Over 1 year    |
|                                                                                 |    | Total               |                  |                |               |                |
| Derivative financial liabilities measured at fair value through profit and loss |    |                     |                  |                |               |                |
| — Foreign exchange derivatives                                                  | \$ | 15,985,495          | -                | -              | -             | -              |
| — Interest rate derivatives                                                     |    | 12,384,654          | -                | -              | -             | -              |
| — Other derivatives                                                             |    | 90,196              | -                | -              | -             | -              |
| Derivative financial liabilities—hedging                                        |    |                     |                  |                |               |                |
| — Foreign exchange derivatives                                                  |    | -                   | 2,210,969        | 158,590        | -             | -              |
| — Interest rate derivatives                                                     |    | 22,480              | 42,178           | 26,408         | 52,114        | 340,112        |
| Total                                                                           |    | <u>\$28,482,825</u> | <u>2,253,147</u> | <u>184,998</u> | <u>52,114</u> | <u>340,112</u> |
|                                                                                 |    | <u>31,313,196</u>   |                  |                |               |                |

|                                                                                 |    | December 31, 2013    |                |               |                |                |
|---------------------------------------------------------------------------------|----|----------------------|----------------|---------------|----------------|----------------|
|                                                                                 |    | 0~30 days            | 31~90 days     | 91~180 days   | 181days~1year  | Over 1 year    |
|                                                                                 |    | Total                |                |               |                |                |
| Derivative financial liabilities measured at fair value through profit and loss |    |                      |                |               |                |                |
| — Foreign exchange derivatives                                                  | \$ | 4,419,895            | -              | -             | -              | -              |
| — Interest rate derivatives                                                     |    | 8,759,809            | -              | -             | -              | -              |
| — Other derivatives                                                             |    | 588,918              | -              | -             | -              | -              |
| Derivative financial liabilities—hedging                                        |    |                      |                |               |                |                |
| — Foreign exchange derivatives                                                  |    | 299,500              | 748,750        | -             | -              | -              |
| — Interest rate derivatives                                                     |    | 31,970               | 40,277         | 71,986        | 143,514        | 577,456        |
| Total                                                                           |    | <u>\$ 14,100,092</u> | <u>789,027</u> | <u>71,986</u> | <u>143,514</u> | <u>577,456</u> |
|                                                                                 |    | <u>15,682,075</u>    |                |               |                |                |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

b. Gross settled derivatives

Gross settled derivatives engaged by the Bank and its subsidiaries include:

Foreign exchange derivatives: forwards, currency swaps, cross currency swaps, and gross settled currency options. For forwards, currency swaps, and cross currency swaps, the amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet; for gross settled currency options, the amount will be disclosed in the earliest period with fair value, as currency options are for trading purpose and can be disposed anytime. The maturity analysis of gross settled derivatives liabilities is as follows:

| <b>December 31, 2014</b>                                                        |                              |                           |                       |                         |                           |                           |
|---------------------------------------------------------------------------------|------------------------------|---------------------------|-----------------------|-------------------------|---------------------------|---------------------------|
|                                                                                 | <b>0~30 days</b>             | <b>31~90 days</b>         | <b>91~180 days</b>    | <b>181days~1year</b>    | <b>Over 1 year</b>        | <b>Total</b>              |
| Derivative financial Instruments measured at fair value through profit and loss |                              |                           |                       |                         |                           |                           |
| — Foreign exchange derivatives                                                  |                              |                           |                       |                         |                           |                           |
| — Cash outflow                                                                  | \$ 917,842,178               | 880,524,692               | 509,901,199           | 422,908,022             | 109,174,355               | 2,840,350,446             |
| — Cash inflow                                                                   | 914,344,878                  | 878,816,553               | 510,114,598           | 422,740,673             | 107,993,455               | 2,834,010,157             |
| Derivative financial liabilities—hedging                                        |                              |                           |                       |                         |                           |                           |
| — Foreign exchange derivatives                                                  |                              |                           |                       |                         |                           |                           |
| — Cash outflow                                                                  | 25,887,659                   | 14,581,323                | -                     | -                       | -                         | 40,468,982                |
| — Cash inflow                                                                   | 25,996,940                   | 14,907,803                | -                     | -                       | -                         | 40,904,743                |
| Cash outflow subtotal                                                           | <u>943,729,837</u>           | <u>895,106,015</u>        | <u>509,901,199</u>    | <u>422,908,022</u>      | <u>109,174,355</u>        | <u>2,880,819,428</u>      |
| Cash inflow subtotal                                                            | <u>940,341,818</u>           | <u>893,724,356</u>        | <u>510,114,598</u>    | <u>422,740,673</u>      | <u>107,993,455</u>        | <u>2,874,914,900</u>      |
| Net cash flow                                                                   | <u><b>\$ (3,388,019)</b></u> | <u><b>(1,381,659)</b></u> | <u><b>213,399</b></u> | <u><b>(167,349)</b></u> | <u><b>(1,180,900)</b></u> | <u><b>(5,904,528)</b></u> |

| <b>December 31, 2013</b>                                                        |                              |                       |                       |                       |                       |                       |
|---------------------------------------------------------------------------------|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                                                                 | <b>0~30 days</b>             | <b>31~90 days</b>     | <b>91~180 days</b>    | <b>181days~1year</b>  | <b>Over 1 year</b>    | <b>Total</b>          |
| Derivative financial Instruments measured at fair value through profit and loss |                              |                       |                       |                       |                       |                       |
| — Foreign exchange derivatives                                                  |                              |                       |                       |                       |                       |                       |
| — Cash outflow                                                                  | \$ 748,535,503               | 678,518,110           | 337,611,617           | 246,774,511           | 43,639,489            | 2,055,079,230         |
| — Cash inflow                                                                   | 747,332,632                  | 679,014,698           | 338,424,457           | 246,975,003           | 43,867,233            | 2,055,614,023         |
| Derivative financial liabilities—hedging                                        |                              |                       |                       |                       |                       |                       |
| — Foreign exchange derivatives                                                  |                              |                       |                       |                       |                       |                       |
| — Cash outflow                                                                  | 11,213,050                   | -                     | -                     | -                     | -                     | 11,213,050            |
| — Cash inflow                                                                   | 11,061,180                   | -                     | -                     | -                     | -                     | 11,061,180            |
| Cash outflow subtotal                                                           | <u>759,748,553</u>           | <u>678,518,110</u>    | <u>337,611,617</u>    | <u>246,774,511</u>    | <u>43,639,489</u>     | <u>2,066,292,280</u>  |
| Cash inflow subtotal                                                            | <u>758,393,812</u>           | <u>679,014,698</u>    | <u>338,424,457</u>    | <u>246,975,003</u>    | <u>43,867,233</u>     | <u>2,066,675,203</u>  |
| Net cash flow                                                                   | <u><b>\$ (1,354,741)</b></u> | <u><b>496,588</b></u> | <u><b>812,840</b></u> | <u><b>200,492</b></u> | <u><b>227,744</b></u> | <u><b>382,923</b></u> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

G. Maturity analysis of off-balance-sheet items

Table below shows the maturity analysis of off-balance-sheet items for the Bank and its subsidiaries. The amount of the guarantee and committed credit lines will be allocated to the earliest period when such obligation can be exercised at anytime by clients. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheets.

|                                                      | <b>December 31, 2014</b> |                   |                    |                      |                    |                    |
|------------------------------------------------------|--------------------------|-------------------|--------------------|----------------------|--------------------|--------------------|
|                                                      | <b>0~30 days</b>         | <b>31~90 days</b> | <b>91~180 days</b> | <b>181days~1year</b> | <b>Over 1 year</b> | <b>Total</b>       |
| Financial guarantee contracts                        | \$ 46,738,824            | -                 | -                  | -                    | -                  | 46,738,824         |
| Unused amount of irrevocable loan commitments        | 172,962,743              | -                 | -                  | -                    | -                  | 172,962,743        |
| Unused amount of irrevocable letter of credit        | 15,138,378               | -                 | -                  | -                    | -                  | 15,138,378         |
| Unused amount of irrevocable credit card commitments | 523,847,137              | -                 | -                  | -                    | -                  | 523,847,137        |
| <b>Total</b>                                         | <b>\$ 758,687,082</b>    | <b>-</b>          | <b>-</b>           | <b>-</b>             | <b>-</b>           | <b>758,687,082</b> |

|                                                      | <b>December 31, 2013</b> |                   |                    |                      |                    |                    |
|------------------------------------------------------|--------------------------|-------------------|--------------------|----------------------|--------------------|--------------------|
|                                                      | <b>0~30 days</b>         | <b>31~90 days</b> | <b>91~180 days</b> | <b>181days~1year</b> | <b>Over 1 year</b> | <b>Total</b>       |
| Financial guarantee contracts                        | \$ 65,105,954            | -                 | -                  | -                    | -                  | 65,105,954         |
| Unused amount of irrevocable loan commitments        | 122,037,088              | -                 | -                  | -                    | -                  | 122,037,088        |
| Unused amount of irrevocable letter of credit        | 16,207,585               | -                 | -                  | -                    | -                  | 16,207,585         |
| Unused amount of irrevocable credit card commitments | 491,278,173              | -                 | -                  | -                    | -                  | 491,278,173        |
| <b>Total</b>                                         | <b>\$ 694,628,800</b>    | <b>-</b>          | <b>-</b>           | <b>-</b>             | <b>-</b>           | <b>694,628,800</b> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

H. Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

a. Maturity analysis of the Bank's assets and liabilities for New Taiwan Dollars

December 31, 2014

Unit: In Millions of New Taiwan Dollars

|                                | Total        | Amount remaining to maturity date |            |            |             |               |             |
|--------------------------------|--------------|-----------------------------------|------------|------------|-------------|---------------|-------------|
|                                |              | 0~10 days                         | 11~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity  | \$ 2,167,624 | 364,840                           | 300,389    | 250,014    | 151,171     | 270,834       | 830,376     |
| Major cash outflow at maturity | 2,481,566    | 192,326                           | 229,483    | 386,806    | 350,873     | 574,948       | 747,130     |
| Gap                            | (313,942)    | 172,514                           | 70,906     | (136,792)  | (199,702)   | (304,144)     | 83,246      |

December 31, 2013

Unit: In Millions of New Taiwan Dollars

|                                | Total        | Amount remaining to maturity date |            |            |             |               |             |
|--------------------------------|--------------|-----------------------------------|------------|------------|-------------|---------------|-------------|
|                                |              | 0~10 days                         | 11~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity  | \$ 1,992,348 | 258,434                           | 332,690    | 272,778    | 111,611     | 266,606       | 750,229     |
| Major cash outflow at maturity | 1,893,777    | 186,765                           | 216,684    | 319,747    | 224,064     | 279,748       | 666,769     |
| Gap                            | 98,571       | 71,669                            | 116,006    | (46,969)   | (112,453)   | (13,142)      | 83,460      |

Note: The above tables refer to the Bank's overall position denominated in NTD.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

b. Maturity analysis of the Bank's assets and liabilities for U.S. Dollars

December 31, 2014

Unit: In Thousands of U.S. Dollars

|                                | Amount remaining to maturity date |             |             |             |               |             |
|--------------------------------|-----------------------------------|-------------|-------------|-------------|---------------|-------------|
|                                | Total                             | 0~30 days   | 31~90 days  | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity  | \$ 60,674,724                     | 21,603,439  | 17,625,483  | 8,850,030   | 7,832,020     | 4,763,752   |
| Major cash outflow at maturity | 80,134,194                        | 29,781,738  | 18,878,171  | 11,657,756  | 11,412,992    | 8,403,537   |
| Gap                            | (19,459,470)                      | (8,178,299) | (1,252,688) | (2,807,726) | (3,580,972)   | (3,639,785) |

December 31, 2013

Unit: In Thousands of U.S. Dollars

|                                | Amount remaining to maturity date |            |             |             |               |             |
|--------------------------------|-----------------------------------|------------|-------------|-------------|---------------|-------------|
|                                | Total                             | 0~30 days  | 31~90 days  | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity  | \$ 49,373,137                     | 19,349,449 | 12,720,122  | 7,449,005   | 5,705,722     | 4,148,839   |
| Major cash outflow at maturity | 52,431,336                        | 18,615,360 | 14,773,788  | 6,669,092   | 5,751,738     | 6,621,358   |
| Gap                            | (3,058,199)                       | 734,089    | (2,053,666) | 779,913     | (46,016)      | (2,472,519) |

Note: The above tables refer to the Bank's overall position denominated in USD.

c. Maturity analysis of the Bank's overseas branches' assets and liabilities for U.S. Dollars

December 31, 2014

Unit: In Thousands of U.S. Dollars

|                                | Amount remaining to maturity date |             |             |             |               |             |
|--------------------------------|-----------------------------------|-------------|-------------|-------------|---------------|-------------|
|                                | Total                             | 0~30 days   | 31~90 days  | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity  | \$ 23,938,826                     | 9,603,357   | 5,602,017   | 3,199,986   | 3,172,571     | 2,360,895   |
| Major cash outflow at maturity | 33,403,099                        | 17,139,290  | 7,250,910   | 3,729,030   | 3,113,889     | 2,169,980   |
| Gap                            | (9,464,273)                       | (7,535,933) | (1,648,893) | (529,044)   | 58,682        | 190,915     |

December 31, 2013

Unit: In Thousands of U.S. Dollars

|                                | Amount remaining to maturity date |           |            |             |               |             |
|--------------------------------|-----------------------------------|-----------|------------|-------------|---------------|-------------|
|                                | Total                             | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity  | \$ 20,292,965                     | 8,883,059 | 4,085,107  | 2,923,442   | 2,231,879     | 2,169,478   |
| Major cash outflow at maturity | 20,413,900                        | 8,860,942 | 4,770,222  | 2,153,606   | 1,991,833     | 2,637,297   |
| Gap                            | (120,935)                         | 22,117    | (685,115)  | 769,836     | 240,046       | (467,819)   |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(f) Capital management

1. Capital management goal and procedure

The goal of the Bank's capital management is to meet the regulatory requirement on capital adequacy and the organization's target of maximizing returns for shareholders by following capital management procedures and raising return on capital.

The Bank's capital planning accounts for short-term and long-term capital requirements. The Bank makes yearly capital planning based on operation planning, internal planned reference index, current and forecast future capital requirement, and promised returns for shareholders. The Bank also makes back-up plan to meet capital requirement not included in the planning. The Bank also regularly conducts stress tests and scenario simulation analyses to calculate different capital ratios, fully taking into account of external conditions and other factors, including potential risks, changes in financial markets, and other events impacting risk taking capabilities, to make sure that the Bank can maintain adequate capital in case of detrimental events and huge market changes.

Planning for yearly earnings distribution follows the principles and a ratio mandated by articles of incorporation and dividend policy, and is put into effect after being approved by the board of directors on behalf of shareholders' meeting. Capital adequacy, potential investment needs, and dividend amount of previous years are taken into account. The needs to maintain proper financial ratios and satisfy capital requirement of the parent company are also preconditions of the distribution.

2. Definition and regulation

The regulator of the Bank is FSC of the Republic of China, and the Bank follows the "Regulations Governing the Capital Adequacy and Capital Category of Banks" issued by FSC.

Starting from January 1, 2013, according to the regulations aforementioned, ratio of regulatory capital to risk-weighted assets shall mean common equity ratio, tier 1 capital ratio, and total capital adequacy ratio. Besides calculating these three ratios of the Bank, it should also calculate the consolidated common equity ratio, Tier 1 capital ratio, and total capital adequacy ratio by consolidating its investments in subsidiaries in consolidated financial statements prepared in accordance with IAS 27, and the three consolidated ratios should follow article 5 of the "Regulations Governing the Capital Adequacy and Capital Category of Banks".



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

3. Regulatory capital

The Bank's regulatory capital is divided into net Tier 1 Capital and net Tier 2 Capital following the "Regulations Governing the Capital Adequacy and Capital Category of Banks":

- A. Net Tier 1 Capital: The aggregate amount of net Common Equity Tier 1 and net additional Tier 1 Capital.
- Net common equity tier 1 capital: Primarily consists of the aggregate amount of Common stock and additional paid-in capital in excess of par - common stock, Capital collected in advance, Capital reserves, Statutory surplus reserves, Special reserves, accumulated profit or loss, Non-controlling interests, and Other equity interest items, minus intangible assets (including goodwill), deferred tax assets due to losses from the previous year, the insufficiency of operation reserves and loan loss provisions, the revaluation surplus of real estate, unamortized losses on sales of non-performing loans, and statutory adjustment items calculated in accordance with "the Methods for Calculating Bank's Regulatory Capital and Risk Weighted Assets".
  - Net additional Tier 1 capital: Consists of the aggregate amount of non-cumulative perpetual preferred stock and its capital stock premium, non-cumulative perpetual subordinated debts, additional tier 1 capital issued by the Bank's subsidiaries and not directly or indirectly held by the Bank, minus statutory adjustment items calculated in accordance with "the Methods for Calculating Bank's Regulatory Capital and Risk Weighted Assets."
- B. Net tier 2 capital: Consists of the aggregate amount of cumulative perpetual preferred stock and its capital stock premium, cumulative perpetual subordinated debts, convertible subordinated debts, long-term subordinated debts, non-perpetual preferred stock and its capital stock premium; the increase in retained earnings when fair value or re-estimated value is adopted as deemed cost for the first-time adoption of IFRSs on premises, 45% of unrealized gains on changes in the fair value of investment properties using fair value method, as well as the 45% of unrealized gains on available-for-sale financial assets, operational reserves and loan-loss provisions, and tier 2 capital issued by the Bank's subsidiaries and not directly or indirectly held by the Bank, minus statutory adjustment items calculated in accordance with "the Methods for Calculating Bank's Regulatory Capital and Risk Weighted Assets."

The Bank issues different capital instruments via versatile venues to maintain a sound capital structure. The Bank does not provide holders of such capital instruments with relevant financing. Subsidiaries of the financial holding company, to which the Bank belongs, do not own such capital instruments.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The regulator examines a Bank's capital category in accordance with the common equity ratio, Tier 1 capital ratio, and total capital adequacy ratio filing by the Bank. When the Bank's capital is graded as inadequate capital, significantly inadequate capital or seriously inadequate capital by the regulator, the regulator shall take prompt corrective actions pursuant to Sections 1 to 3, Paragraph 1, Article 44-2 of the Banking Act.

The aforementioned regulations governing categories issued by the regulator follows the new BASEL capital agreement issued by Bank for International Settlements. A brief description of three pillars of the agreement and the Bank's compliance with them is as below:

**A. Pillar 1**

Pillar 1 covers the capital requirement for credit risk, market risk, and operational risk.

- a. Credit risk measures the risk that a bank suffers losses when counterparties breach agreements, and can be divided into on/off-balance-sheet items. Capital accrual methods include standardized approach and internal ratings-based (IRB) approaches. The Bank adopts standardized approach in the calculation of required capital.
- b. Market risk stirs negative impact on a bank's overall revenue, capital, value or operating capacity due to changes in interest rates (including credit spread risk), foreign exchange rate, securities prices, commodities prices and its volatility, correlation interaction, market liquidity and other market risk factors. Market risk capital accrual methods include standardized approach and internal model approach. The Bank adopts standardized approach in the calculation of required capital.
- c. Operational risk is the risk that a bank suffers losses from improprieties or failures of its internal operation, personnel or systems, or external events, including legal risk, but excluding strategic and reputational risk. Methods to measure capital required for operational risk include basic indicator approach (BIA), standardized approach (SA), alternative standardized approaches (ASA), and advanced measurement approaches (AMA). The Bank adopts standardized approach in dividing the gross profits into eight business lines, and calculating required capital for each business line's operational risk based on their respective risk quotient.

**B. Pillar 2**

Pillar 2 ensures that each bank has a sound internal assessment process and is able to forecast its capital adequacy based on the thorough assessment of bank risks, and that, with proper regulatory monitoring, regulatory capital matches the overall risk characters.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For compliance with regulatory monitoring of capital adequacy, the Bank conducts regular filing of capital adequacy self-assessment and various risks management every year in accordance with regulatory mandate.

**C. Pillar 3**

Pillar 3 involves market discipline and requires banks to follow new BASEL capital agreement framework by disclosing more detailed information on risk, capital, and risk management, to improve banking information transparency. To be in compliance with the pillar 3 market discipline principle, the Bank has on its website a page “capital adequacy and risk management” dedicated to disclosure of qualitative and quantitative information.

**4. Capital adequacy ratios of the Bank and its subsidiaries**

| Analysis item                               |                            |                                                       | Period | December 31,2014 | December 31,2013 |
|---------------------------------------------|----------------------------|-------------------------------------------------------|--------|------------------|------------------|
| Eligible capital                            | Common equity capital      |                                                       |        | 180,144,347      | 129,872,697      |
|                                             | Other Tier 1 capital       |                                                       |        | 28,825,791       | 9,315,799        |
|                                             | Tier 2 capital             |                                                       |        | 56,329,620       | 31,163,779       |
|                                             | Eligible Capital           |                                                       |        | 265,299,758      | 170,352,275      |
| Risk-weighted assets                        | Credit risk                | Standardized approach                                 |        | 1,686,451,055    | 1,256,869,564    |
|                                             |                            | Internal ratings-based approach                       |        | -                | -                |
|                                             |                            | Securitization                                        |        | 73,148,358       | 863,949          |
|                                             | Operational risk           | Basic indicator approach                              |        | -                | -                |
|                                             |                            | Standardized approach / Alternative standard approach |        | 123,148,154      | 86,451,508       |
|                                             |                            | Advanced measurement approach                         |        | -                | -                |
|                                             | Market risk                | Standardized approach                                 |        | 88,707,956       | 97,053,020       |
|                                             |                            | Internal model approach                               |        | -                | -                |
|                                             | Total risk-weighted assets |                                                       |        | 1,975,455,523    | 1,441,238,041    |
| Capital adequacy ratio                      |                            |                                                       |        | 13.46%           | 11.82%           |
| Common Equity / Risk-weighted assets ratio  |                            |                                                       |        | 9.14%            | 9.01%            |
| Tier 1 capital / Risk-weighted assets ratio |                            |                                                       |        | 10.60%           | 9.66%            |
| Leverage ratio                              |                            |                                                       |        | 4.53%            | 4.16%            |

Note: The Bank’s consolidated capital adequacy ratio includes total amount of risk weighted assets from The Tokyo Star Bank, Ltd., which is the Bank’s subsidiary in Japan. The aforementioned total amount is computed in compliance with the BASEL III related regulations approved by the authorities of banking sector in Japan.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**7. RELATED-PARTY TRANSACTIONS**

(A) Names of related parties and relationship with the Bank

| <b>Name of related party</b>                                    | <b>Relationship with the Bank</b>                                                                                              |
|-----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| CTBC Financial Holding Co., Ltd.                                | Parent company of the Bank.                                                                                                    |
| Grand Bills Finance Corporation                                 | Investee company under equity method                                                                                           |
| GCB Finance (HK) Limited                                        | "                                                                                                                              |
| Taiwan Institute of Economic Research                           | The Bank contributed over 1/3 of its total funds.                                                                              |
| CTBC Charity Foundation                                         | "                                                                                                                              |
| CTBC Culture Foundation                                         | "                                                                                                                              |
| Importer and Exporter Association of Taipei                     | The director of the Bank is its representative.                                                                                |
| Showa Denko Hd Trace Corp.                                      | The Chairman of the Bank is its director.                                                                                      |
| Straits Exchange Foundation                                     | "                                                                                                                              |
| CTBC Securities Co., Ltd.                                       | Controlled by the same company as the Bank.                                                                                    |
| CTBC(Mauritius) Holding Co., Ltd.                               | "                                                                                                                              |
| CTBC Asia Limited                                               | "                                                                                                                              |
| CTBC Insurance Brokers Co., Ltd.                                | "                                                                                                                              |
| CTBC Venture Capital Co., Ltd.                                  | "                                                                                                                              |
| CTBC Asset Management Co., Ltd.                                 | "                                                                                                                              |
| CTBC Security Co., Ltd.                                         | "                                                                                                                              |
| Taiwan Lottery Co., Ltd.                                        | "                                                                                                                              |
| CTBC Life Insurance Co., Ltd.                                   | "                                                                                                                              |
| CTBC Investments Co., Ltd.                                      | "                                                                                                                              |
| CTBC Venture Capital Investment Management (Shanghai) Co., Ltd. | "                                                                                                                              |
| CTBC International Co., Limited.                                | "                                                                                                                              |
| CTBC Leasing Co., Ltd.                                          | "                                                                                                                              |
| CTBC Capital International Co., Limited.                        | "                                                                                                                              |
| Chung Shin-1 Asset Management Co., Ltd.                         | Controlled by the same company as the Bank. (Liquidated in February, 2014)                                                     |
| Overseas Investment & Development Corp.                         | The Bank is its Chairman.                                                                                                      |
| Changchi Investments Co., Ltd.                                  | The director of the parent company.                                                                                            |
| Wei Fu Investment Co., Ltd.                                     | "                                                                                                                              |
| Weihung Investment Co., Ltd.                                    | The Chairman of the parent company of the Bank is its director.                                                                |
| Hewei Investment Co., Ltd.                                      | "                                                                                                                              |
| Sunghung Investment Co., Ltd.                                   | "                                                                                                                              |
| Fenglun Development & Investment Co., Ltd.                      | "                                                                                                                              |
| Landrich International Ltd.                                     | The second-degree relatives of the Chairman of the Bank's parent company have substantive control (indirect) over the Company. |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

| <u>Name of related party</u>                       | <u>Relationship with the Bank</u>                                                                                                                             |
|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| United Construction Co.Ltd.                        | The company's Chairman is the second-degree relatives of the Chairman of the Bank's parent company.                                                           |
| Taiwan Sports Lottery Co., Ltd.                    | "                                                                                                                                                             |
| Quanwei Investment Limited                         | "                                                                                                                                                             |
| Kainan High School of Commerce and Industry        | The Chairman of the parent company of the Bank is its body corporate representative.                                                                          |
| Kinpo Electronics, Inc.                            | The Chairman of the Bank's subsidiary is its director.                                                                                                        |
| Taipei Financial Center Corporation                | The Chairman of the company which is controlled by the same parent company as the Bank is its director.                                                       |
| Collamatrix Co., Ltd.                              | "                                                                                                                                                             |
| Taishin International Bank                         | "                                                                                                                                                             |
| Nan Ya Plastics Corporation                        | "                                                                                                                                                             |
| Formosa Sumco Technology Corporation               | "                                                                                                                                                             |
| Ho-Yeh Investment Co., Ltd                         | The Chairman of the company which is controlled by the same parent company as the Bank is its Chairman.                                                       |
| Acacia Company                                     | The director of the company which is controlled by the same parent company as the Bank is its Chairman.                                                       |
| Chailease Finance Co., Ltd.                        | Related party in substance                                                                                                                                    |
| Sungyong Investment Co., Ltd.                      | "                                                                                                                                                             |
| Sungbo Co., Ltd.                                   | "                                                                                                                                                             |
| Jungguan Investment Co., Ltd.                      | "                                                                                                                                                             |
| Kuan Ho Development Co., Ltd.                      | "                                                                                                                                                             |
| Jiehe Construction Co., Ltd.                       | "                                                                                                                                                             |
| Chinatrust Real Estate Co., Ltd.                   | "                                                                                                                                                             |
| Zhonghang Co., Ltd.                                | "                                                                                                                                                             |
| Chailease Resources Technology Co. Ltd.            | "                                                                                                                                                             |
| Bosser Design Inc.                                 | "                                                                                                                                                             |
| Chung-Chie Property Management Co., Ltd.           | "                                                                                                                                                             |
| CTC Group Inc.                                     | "                                                                                                                                                             |
| Chailease International Leasing Co., Ltd.(Vietnam) | "                                                                                                                                                             |
| Yi Kao Investment Co., Ltd.                        | "                                                                                                                                                             |
| Chung Cheng Investment Co., Ltd.                   | "                                                                                                                                                             |
| APEX Credit Solutions Inc.                         | "                                                                                                                                                             |
| Hu-Yi Solution Corp. (Shanghai)                    | " (Note)                                                                                                                                                      |
|                                                    | (Liquidated in March, 2015)                                                                                                                                   |
| Other related parties                              | The directors of CTBC Financial Holding Co., Ltd. and subsidiaries (including independent directors), supervisors, managers and their families, spouses, etc. |

Note: The special purpose entity that is controlled by the Bank.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(B) Significant transactions between related parties and the Bank

(a) Lease

For the year ended December 31, 2014 and 2013, the rental revenue that the Bank received from related parties for the rental of buildings, parking spaces and safe deposit box amounted to \$59,794 and \$46,732, respectively, constituting 41.62% and 33.77%, respectively, of total rental income.

As of December 31, 2014 and 2013, deposits for renting safe boxes to related parties were \$6, respectively. While the rents received in advance from related parties amounted \$9,026 and \$1,110, respectively. The guarantee deposit for the use of space and machinery received from related parties amounted to \$20,382 and \$12,866, respectively.

(b) Donations

| <b>Related party</b>    | <b>For the year ended December 31,</b> |               |
|-------------------------|----------------------------------------|---------------|
|                         | <b>2014</b>                            | <b>2013</b>   |
| CTBC Culture Foundation | \$ 31,000                              | 45,000        |
| CTBC Charity Foundation | 46,005                                 | 44,366        |
| <b>Total</b>            | <b>\$ 77,005</b>                       | <b>89,366</b> |

(c) Guarantee

| <b>December 31, 2014</b>   |                        |                       |                                     |                                |                                          |
|----------------------------|------------------------|-----------------------|-------------------------------------|--------------------------------|------------------------------------------|
| <b>Related party</b>       | <b>Maximum balance</b> | <b>Ending balance</b> | <b>Balance of guarantee reserve</b> | <b>Range of interest rates</b> | <b>Collateral</b>                        |
| Showa Denko Hd Trace Corp. | \$ 3,000               | 3,000                 | -                                   | 1%                             | Securities/ the NTD deposits in the Bank |
| Collamatrix Co., Ltd.      | 3,639                  | -                     | -                                   | 1%                             | Batch-type credit guarantee              |

| <b>December 31, 2013</b>   |                        |                       |                                     |                                |                   |
|----------------------------|------------------------|-----------------------|-------------------------------------|--------------------------------|-------------------|
| <b>Related party</b>       | <b>Maximum balance</b> | <b>Ending balance</b> | <b>Balance of guarantee reserve</b> | <b>Range of interest rates</b> | <b>Collateral</b> |
| Showa Denko Hd Trace Corp. | \$ 1,500               | 1,500                 | -                                   | 1%                             | None.             |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(d) Loans

| December 31, 2014      |                                                   |                 |                |                   |               |                                           |                 |
|------------------------|---------------------------------------------------|-----------------|----------------|-------------------|---------------|-------------------------------------------|-----------------|
| Categories             | Number/name of related parties                    | Maximum balance | Ending balance | Settlement status |               | Collateral                                | Loan conditions |
|                        |                                                   |                 |                | Normal loans      | Overdue loans |                                           |                 |
| Consumer loan—employee | 40                                                | \$ 17,745       | 9,071          | 9,071             | -             | None                                      | Note            |
| Home loan mortgage     | 327                                               | 1,835,333       | 1,574,958      | 1,574,958         | -             | Real estate/ others                       | "               |
| Others                 | Nan Ya Plastics Corporation                       | 951,744         | 919,187        | 919,187           | -             | Real estate/ plant/ machine room          | "               |
| "                      | CTC Group Inc.                                    | 509,920         | 496,022        | 496,022           | -             | Real estate                               | "               |
| "                      | Taipei Financial Center Corporation               | 525,270         | 449,483        | 449,483           | -             | Real estate/ buildings for commercial use | "               |
| "                      | Jungguan Investment Co.,Ltd.                      | 355,000         | 355,000        | 355,000           | -             | Real estate                               | "               |
| "                      | Zhonghang Co.,Ltd                                 | 366,800         | 319,200        | 319,200           | -             | Vehicle/ cargo aircraft                   | "               |
| "                      | Kuan Ho Development Co., Ltd                      | 245,000         | 245,000        | 245,000           | -             | Real estate                               | "               |
| "                      | Chailease International Leasing Co., Ltd(Vietnam) | 205,500         | 122,792        | 122,792           | -             | Machinery                                 | "               |
| "                      | Wei Fu Investment Co., Ltd.                       | 90,000          | 90,000         | 90,000            | -             | Real estate                               | "               |
| "                      | Sunghung Investment Co., Ltd.                     | 43,300          | 43,300         | 43,300            | -             | Real estate                               | "               |
| "                      | Changchi Investments Co., Ltd.                    | 10,604          | 10,305         | 10,305            | -             | Real estate                               | "               |
| "                      | Formosa Sumco Technology Corporation              | 8,316           | 5,544          | 5,544             | -             | Machinery                                 | "               |
| "                      | Acacia Company                                    | 10,000          | 5,000          | 5,000             | -             | Batch-type credit guarantee               | "               |
| "                      | Others                                            | 144,637         | 43,764         | 43,764            | -             | Real estate                               | "               |
| December 31, 2013      |                                                   |                 |                |                   |               |                                           |                 |
| Categories             | Number/name of related parties                    | Maximum balance | Ending balance | Settlement status |               | Collateral                                | Loan conditions |
|                        |                                                   |                 |                | Normal loans      | Overdue loans |                                           |                 |
| Consumer loan—employee | 48                                                | \$ 21,362       | 9,281          | 9,281             | -             | None                                      | Note            |
| Home loan mortgage     | 322                                               | 1,894,254       | 1,574,843      | 1,574,843         | -             | Real estate/ others                       | "               |
| Others                 | CTC Group Inc                                     | 496,980         | 481,496        | 481,496           | -             | Real estate                               | "               |
| "                      | Zhonghang Co., Ltd.                               | 414,400         | 366,800        | 366,800           | -             | Vehicle/ cargo aircraft                   | "               |
| "                      | Jungguan Investment Co.,Ltd.                      | 355,000         | 355,000        | 355,000           | -             | Real estate                               | "               |
| "                      | Kuan Ho Development Co., Ltd                      | 245,000         | 245,000        | 245,000           | -             | Real estate                               | "               |
| "                      | Chailease International Leasing Co., Ltd(Vietnam) | 260,196         | 194,046        | 194,046           | -             | Machinery                                 | "               |
| "                      | Sunghung Investment Co., Ltd.                     | 43,300          | 43,300         | 43,300            | -             | Real estate                               | "               |
| "                      | Others                                            | 1,184,149       | 72,325         | 72,325            | -             | Real estate                               | "               |

Note: The terms of loans between related and non-related parties are identical.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(e) Deposits

| December 31, 2014                              |                      |                   |                            |                                             |
|------------------------------------------------|----------------------|-------------------|----------------------------|---------------------------------------------|
| Related party                                  | Maximum<br>balance   | Ending balance    | Range of interest<br>rates | Interest expenses<br>(for the year<br>2014) |
| CTBC Life Insurance Co., Ltd.                  | \$ 15,967,785        | 8,582,652         | 0~0.68%                    | 6,294                                       |
| Showa Denko Hd Trace Corp.                     | 6,504,731            | 3,913,211         | 0~1.35%                    | 13,382                                      |
| CTBC Securities Co., Ltd.                      | 2,450,221            | 1,723,328         | 0~1.35%                    | 14,682                                      |
| CTBC Charity Foundation                        | 1,174,858            | 925,923           | 0~1.35%                    | 8,291                                       |
| CTBC Insurance Brokers Co., Ltd.               | 3,573,037            | 728,205           | 0~0.17%                    | 1,538                                       |
| Taiwan Sports Lottery Co., Ltd.                | 592,386              | 532,524           | 0~0.17%                    | 462                                         |
| Chung Cheng Investment Co., Ltd.               | 513,360              | 512,650           | 0~0.17%                    | 853                                         |
| Sunghung Investment Co., Ltd.                  | 435,506              | 434,306           | 0~0.17%                    | 497                                         |
| Taiwan Institute of Economic Research          | 415,208              | 386,495           | 0~1.40%                    | 1,675                                       |
| Hewei Investment Co., Ltd.                     | 489,911              | 337,350           | 0~0.17%                    | 769                                         |
| Taiwan Lottery Co., Ltd.                       | 595,449              | 310,190           | 0~0.55%                    | 611                                         |
| Weihung Investment Co., Ltd.                   | 310,698              | 298,396           | 0.04%                      | 120                                         |
| Kainan High School of Commerce and<br>Industry | 316,567              | 290,969           | 0~1.37%                    | 3,042                                       |
| CTBC Investments Co., Ltd.                     | 350,387              | 290,366           | 0~0.75%                    | 2,069                                       |
| Sungyong Investment Co., Ltd.                  | 305,596              | 282,078           | 0~0.17%                    | 489                                         |
| Kuan Ho Development Co., Ltd.                  | 503,247              | 254,204           | 0~0.17%                    | 759                                         |
| Jungguan Investment Co., Ltd.                  | 321,421              | 204,068           | 0~0.17%                    | 325                                         |
| Quanwei Investment Limited                     | 615,626              | 177,979           | 0~0.17%                    | 267                                         |
| Straits Exchange Foundation                    | 157,464              | 157,464           | 0.04~1.37%                 | 1,277                                       |
| CTBC Financial Holding Co., Ltd.               | 15,228,409           | 144,632           | 0~0.17%                    | 1,910                                       |
| CTBC Venture Capital Co., Ltd.                 | 383,968              | 138,752           | 0~0.17%                    | 77                                          |
| GCB Finance (HK) Limited                       | 133,876              | 129,525           | 0~0.001%                   | -                                           |
| Fenglu Development & Investment Co., Ltd.      | 121,466              | 121,466           | 0~0.17%                    | 183                                         |
| Ho-Yeh Investment Co., Ltd.                    | 131,323              | 118,858           | 0~0.04%                    | 31                                          |
| Overseas Investment & Development Corp.        | 265,633              | 106,945           | 0~1.10%                    | 958                                         |
| Others                                         | 12,240,729           | 5,036,705         |                            | 34,795                                      |
| <b>Total</b>                                   | <b>\$ 64,098,862</b> | <b>26,139,241</b> |                            | <b>95,356</b>                               |

| December 31, 2013                            |                      |                   |                            |                                             |
|----------------------------------------------|----------------------|-------------------|----------------------------|---------------------------------------------|
| Related party                                | Maximum<br>balance   | Ending balance    | Range of interest<br>rates | Interest expenses<br>(for the year<br>2013) |
| Showa Denko Hd Trace Corp.                   | \$ 3,949,029         | 3,672,546         | 0~1.35%                    | 9,957                                       |
| CTBC Life Insurance Co., Ltd.                | 6,295,851            | 2,830,375         | 0~0.7%                     | 3,355                                       |
| CTBC Securities Co., Ltd.                    | 3,410,523            | 1,605,055         | 0~1.35%                    | 13,724                                      |
| CTBC Charity Foundation                      | 1,081,061            | 825,586           | 0~1.35%                    | 6,401                                       |
| Yi Kao Investment Co., Ltd.                  | 887,471              | 567,740           | 0.04%                      | 69                                          |
| Chung Cheng Investment Co., Ltd.             | 505,501              | 505,068           | 0~0.17%                    | 511                                         |
| Hewei Investment Co., Ltd.                   | 508,945              | 488,440           | 0~0.17%                    | 385                                         |
| Kuan Ho Development Co., Ltd.                | 592,292              | 466,638           | 0~0.17%                    | 255                                         |
| CTBC Insurance Brokers Co., Ltd.             | 3,237,683            | 462,386           | 0~0.17%                    | 1,334                                       |
| Taiwan Institute of Economic Research        | 430,763              | 406,763           | 0~1.40%                    | 1,533                                       |
| Chinatrust Real Estate Co., Ltd.             | 397,907              | 375,538           | 0~1.35%                    | 928                                         |
| CTBC Investments Co., Ltd.                   | 343,207              | 341,188           | 0~0.81%                    | 1,414                                       |
| Taiwan Lottery Co., Ltd.                     | 728,452              | 340,968           | 0~0.55%                    | 2,322                                       |
| Jungguan Investment Co., Ltd.                | 1,804,152            | 321,421           | 0~0.17%                    | 619                                         |
| Weihung Investment Co., Ltd.                 | 333,522              | 310,698           | 0.04%                      | 55                                          |
| Sungyong Investment Co., Ltd.                | 460,008              | 306,032           | 0~0.17%                    | 311                                         |
| Sunghung Investment Co., Ltd.                | 261,019              | 257,529           | 0~0.17%                    | 206                                         |
| Quanwei Investment Limited.                  | 384,843              | 150,592           | 0.04~0.17%                 | 162                                         |
| Jiehe Construction Co., Ltd.                 | 143,338              | 137,304           | 0~0.17%                    | 44                                          |
| United Construction Co., Ltd.                | 1,326,573            | 117,516           | 0~0.17%                    | 105                                         |
| Fenglu Development & Investment Co.,<br>Ltd. | 264,870              | 106,091           | 0~0.17%                    | 200                                         |
| Others                                       | 28,980,608           | 4,330,862         |                            | 30,258                                      |
| <b>Total</b>                                 | <b>\$ 56,327,618</b> | <b>18,926,336</b> |                            | <b>74,148</b>                               |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(f) Financial derivatives

| December 31, 2014          |                                  |                       |                    |                          |                          |                |
|----------------------------|----------------------------------|-----------------------|--------------------|--------------------------|--------------------------|----------------|
| Related party              | Derivative financial instruments | Contract period       | Notional principal | Unrealized profit (loss) | Balance sheet<br>Account | Ending Balance |
| Taishin International Bank | Interest rate swaps              | 06.12.2012~09.12.2019 | NTD 41,290,000     | 18,143                   | (Note1)                  | 18,143         |
| "                          | Non-deliverables                 | 05.12.2014~06.18.2015 | CNY 62,295         | (235)                    | (Note2)                  | (235)          |
| "                          | "                                | 01.02.2014~01.06.2015 | USD 5,000          | 199                      | (Note1)                  | 199            |
| "                          | Cross currency swap              | 01.07.2014~01.09.2015 | NTD 300,800        | (18,037)                 | (Note2)                  | (18,037)       |
| "                          | Money market swap                | 09.11.2014~09.15.2015 | CNH 124,450        | 5,405                    | (Note1)                  | 5,405          |
| "                          | "                                | 02.13.2014~09.23.2015 | USD 175,000        | 318,461                  | "                        | 318,461        |
| "                          | "                                | 07.02.2014~07.07.2015 | USD 20,000         | 2,354                    | "                        | 2,354          |
| "                          | "                                | 01.10.2014~01.14.2015 | NTD 296,550        | (20,637)                 | (Note2)                  | (20,637)       |

Note 1: Financial assets measured at fair value through profit or loss.

Note 2: Financial liabilities measured at fair value through profit or loss.

(g) Trading of bills and bonds

| Related party              | For the year ended December 31, 2014 |                      |
|----------------------------|--------------------------------------|----------------------|
|                            | Bills and bonds purchased            | Bills and bonds sold |
| Taishin International Bank | \$ 1,000,000                         | -                    |

| Related party                 | For the year ended December 31, 2013 |                      |
|-------------------------------|--------------------------------------|----------------------|
|                               | Bills and bonds purchased            | Bills and bonds sold |
| CTBC Life Insurance Co., Ltd. | -                                    | 1,100,000            |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(h) Others

(1) Commission and other income

| Related party                    | Summary                                                                                                    | For the year ended December 31 |                  |
|----------------------------------|------------------------------------------------------------------------------------------------------------|--------------------------------|------------------|
|                                  |                                                                                                            | 2014                           | 2013             |
| CTBC Financial Holding Co., Ltd. | Allocation of information, commission income and income from group catering                                | \$ 26,540                      | 32,734           |
| CTBC Securities Co., Ltd.        | Allocation of information, profits from selling products, income from group catering and commission income | 12,258                         | 2,534            |
| CTBC Insurance Brokers Co., Ltd. | Allocation of information, profits from selling products and commission income                             | 6,042,096                      | 5,086,328        |
| Taiwan Lottery Co., Ltd.         | Allocation of information, machine relocation and remittance fee                                           | 7,346                          | 2,966            |
| CTBC Asia Limited                | Commission income                                                                                          | 2,374                          | 2,842            |
| CTBC Life Insurance Co., Ltd.    | Allocation of information, profits from selling products and commission income                             | 193,957                        | 142,190          |
| Chailease Finance Co., Ltd.      | Management revenue and commission income                                                                   | 698                            | 83               |
| CTBC Investments Co., Ltd.       | Commission for trust, allocation of information and income from group catering                             | 32,828                         | -                |
| Kinpo Electronics, Inc.          | Commission income                                                                                          | 2,076                          | -                |
| Grand Bills Finance Corporation  | Commission income                                                                                          | 593                            | 482              |
| Individuals                      | Commission for funds                                                                                       | 7,691                          | 5,929            |
| Total                            |                                                                                                            | <u>\$ 6,328,457</u>            | <u>5,276,088</u> |

The balance of accounts receivable for foregoing transactions were as follows:

| Related party                    | Summary                                                                                                    | December 31, 2014 | December 31, 2013 |
|----------------------------------|------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|                                  |                                                                                                            |                   |                   |
| CTBC Financial Holding Co., Ltd. | Allocation of information, commission income and income from group catering                                | \$ 2,079          | 4,225             |
| CTBC Securities Co., Ltd.        | Allocation of information, profits from selling products, income from group catering and commission income | 299               | 5                 |
| CTBC Insurance Brokers Co., Ltd. | Allocation of profits, expenses and commission income                                                      | 512,470           | 509,036           |
| Taiwan Lottery Co., Ltd.         | Allocation of information, machine relocation and remittance fee                                           | 616               | 276               |
| CTBC Asia Limited                | Commission income                                                                                          | 133               | 169               |
| CTBC Life Insurance Co., Ltd.    | Allocation of information, profits from selling products and commission income                             | 2,713             | 263               |
| CTBC Investments Co., Ltd.       | Commission for trust, allocation of information and income from group catering                             | 12                | -                 |
| Kinpo Electronics, Inc.          | Commission income                                                                                          | 161               | -                 |
| Grand Bills Finance Corporation  | Commission income                                                                                          | 43                | 36                |
| Total                            |                                                                                                            | <u>\$ 518,526</u> | <u>514,010</u>    |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Handling fees and other general administration expenses

| Related party                               | Summary                                                                      | For the year ended December 31 |                  |
|---------------------------------------------|------------------------------------------------------------------------------|--------------------------------|------------------|
|                                             |                                                                              | 2014                           | 2013             |
| CTBC Financial Holding Co., Ltd.            | Credit rating fee and remittance fee                                         | \$ -                           | 1,363            |
| CTBC Securities Co., Ltd.                   | Service fees for trust, brokerage fees and site usage expenses               | 42,088                         | 3,802            |
| CTBC Security Co., Ltd.                     | Security fees                                                                | 102,500                        | 92,152           |
| Taiwan Lottery Co., Ltd.                    | Lottery service fees                                                         | 2,317,847                      | 965,479          |
| Chailease Finance Co., Ltd.                 | Business service fee, leasing of official vehicles and rental fee            | 27,034                         | 31,502           |
| Chinatrust Real Estate Co., Ltd.            | Feedback fund for project service fees                                       | -                              | 5,759            |
| Taiwan Institute of Economic Research       | Expense for financial research and business consulting commissioned research | 10,650                         | 11,800           |
| Sungbo Co., Ltd.                            | Gift expenses                                                                | 2,223                          | 1,580            |
| Chailease Resources Technology Co. Ltd.     | Gift expenses                                                                | 599                            | 1,408            |
| Chung-Chie Property Management Co., Ltd.    | Site cleaning and machinery maintenance fees                                 | -                              | 9,836            |
| APEX Credit Solutions Inc.                  | Collection assistance fees                                                   | 14,628                         | 20,776           |
| Importer and Exporter Association of Taipei | Rental fees, utilities expenses and management fees for branches             | 4,157                          | 4,136            |
| Bosser Design Inc.                          | Upholstery fees                                                              | 43,972                         | -                |
| Taipei Financial Center Corporation         | Feedback fund and complimentary gift for joint-brand credit card payment     | 112,759                        | -                |
| Hu- Yi Solution Corp. (Shanghai)            | Consultancy fees                                                             | 5,265                          | -                |
| Landrich International Ltd.                 | Gift expenses                                                                | 511                            | -                |
| CTBC Life Insurance Co., Ltd.               | Group insurance fees                                                         | 124,225                        | 88,544           |
| Total                                       |                                                                              | <u>\$ 2,808,458</u>            | <u>1,238,137</u> |

Foregoing transactions, accounts payable balances were as follows:

| Related party                            | Summary                                                                      | December 31, 2014   | December 31, 2013 |
|------------------------------------------|------------------------------------------------------------------------------|---------------------|-------------------|
|                                          |                                                                              |                     |                   |
| CTBC Securities Co., Ltd.                | Service fees for trust, brokerage fees and site usage expenses               | \$ 5,610            | -                 |
| CTBC Security Co., Ltd.                  | Security fees                                                                | 569                 | 7,199             |
| Taiwan Lottery Co., Ltd.                 | Lottery service fees                                                         | 1,501,538           | 309,118           |
| Taiwan Institute of Economic Research    | Expense for financial research and business consulting commissioned research | -                   | 2,950             |
| Chung-Chie Property Management Co., Ltd. | Site cleaning and other expenses                                             | -                   | 1                 |
| APEX Credit Solutions Co., Ltd.          | Collection assistance fees                                                   | 811                 | 3,627             |
| Taipei Financial Center Corporation      | Feedback fund and complimentary gift for joint-brand credit card payment     | 11,138              | -                 |
| CTBC Life Insurance Co., Ltd.            | Group insurance fees and comisions                                           | 17,998              | 5,552             |
| Total                                    |                                                                              | <u>\$ 1,537,664</u> | <u>328,447</u>    |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(3) Others

| <b>Related party</b>          | <b>Summary</b>                                                                     | <b>December 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|-------------------------------|------------------------------------------------------------------------------------|------------------------------|------------------------------|
| Chailease Finance Co., Ltd.   | Released undue loans (Note)                                                        | \$ 928,742                   | 134,188                      |
| CTBC Life Insurance Co., Ltd. | Received and paid on behalf of CTBC Life Insurance Co., Ltd for mortgage insurance | -                            | 3,205                        |
| CTBC Asia Limited             | Advances for office rentals                                                        | 3,548                        | 4,394                        |
| GCB Finance (HK) Limited      | Advances for office rentals                                                        | 894                          | 732                          |
| Others                        | Advances for utilities expenses, security fees, training and other expenses        | 2,332                        | 1,718                        |
| Total                         |                                                                                    | <b>\$ 935,516</b>            | <b>144,237</b>               |

Note: The Bank signed a strategic alliance agreement with Chailease Finance Co., Ltd. agreeing loans will be released directly to Chailease's clients, and Chailease pledged to buyback and settle all debts once any delay arises.

Please refer to Note 9(A) for more information regarding the guaranteed loans of PT Bank CTBC Indonesia.

No significant discrepancy in transaction terms found between related party transaction and non-related party transaction.

(C) Key management personnel compensation in total

|                                               | <b>For the year ended December 31</b> |                |
|-----------------------------------------------|---------------------------------------|----------------|
|                                               | <b>2014</b>                           | <b>2013</b>    |
| Salary and other short-term employee benefits | \$ 936,045                            | 786,213        |
| Post-employment benefits                      | 16,569                                | 65,322         |
| Share-based payment                           | 28,575                                | 77,725         |
| Total                                         | <b>\$ 981,189</b>                     | <b>929,260</b> |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**8. PLEDGED ASSETS**

Pledged assets of the Bank and its subsidiaries were as follows:

Unit: In Thousands of New Taiwan dollars

| Assets                                       | Type of securities                                    | Par value of refundable deposits |                   | Purpose of collateral                                                    |
|----------------------------------------------|-------------------------------------------------------|----------------------------------|-------------------|--------------------------------------------------------------------------|
|                                              |                                                       | December 31, 2014                | December 31, 2013 |                                                                          |
| Due from Central Bank and call loans to bank | Time deposit                                          | 500,000                          | 500,000           | Deposits for calling loans in foreign currency                           |
|                                              | Time deposit                                          | 1,400,000                        | -                 | Call loan liquidation account in U.S. Dollars                            |
| Available-for-sale financial assets-net      | Time deposit                                          | 100,000                          | -                 | Deposits for bills dealer                                                |
|                                              | Bond                                                  | 3,272,834                        | 3,787,352         | Credit line from Federal Reserve Bank and other deposits                 |
|                                              | NCD of Central Bank                                   | 8,000,000                        | -                 | Daytime overdrafts of Central Bank                                       |
|                                              | "                                                     | 9,500,000                        | -                 | Deposits for calling loans in foreign currency                           |
|                                              | Government bond                                       | 198,555                          | 199,325           | Overdrafts secured                                                       |
|                                              | "                                                     | 5,772,165                        | -                 | Collateral for derivative transactions                                   |
|                                              | "                                                     | 63,625,670                       | -                 | Guarantee deposits for transaction settlements and call loans from banks |
|                                              | "                                                     | 31,022,192                       | -                 | Repurchase agreement pledge                                              |
|                                              | "                                                     | 584,537                          | -                 | Futures margins                                                          |
|                                              | "                                                     | 7,965,195                        | -                 | Marketable securities entrusted                                          |
|                                              | "                                                     | 68,787                           | -                 | Other statutory reserves                                                 |
| Receivables                                  | Matured securities classified under other receivables | 2,200                            | 13,500            | Deposits for litigation and others                                       |
| Held-to-maturity financial assets-net        | NCD of Central Bank                                   | -                                | 10,000,000        | Daytime overdrafts of Central Bank                                       |
|                                              | "                                                     | -                                | 9,500,000         | Deposits for calling loans in foreign currency                           |
|                                              | "                                                     | -                                | 100,000           | Deposits for bills dealer                                                |
|                                              | "                                                     | 8,600,000                        | 3,000,000         | Call loan liquidation account in U.S. Dollars                            |
|                                              | NCD                                                   | 391,000                          | 391,000           | Guarantee fulfillment of superficies                                     |
|                                              | Government bond                                       | -                                | 4,271             | Overdrafts secured                                                       |
|                                              | "                                                     | 470,000                          | 490,000           | Trust funds reserve                                                      |
|                                              | "                                                     | 150,000                          | 150,000           | Bond settlement reserves                                                 |
|                                              | "                                                     | 91,600                           | 140,200           | Deposits for litigation and others                                       |
|                                              | Time deposit                                          | 70,000                           | 70,000            | Operational guarantee deposit for securities dealer                      |
| Other financial assets                       | "                                                     | 40,000                           | 40,000            | Underwriting guarantee deposit for securities dealer                     |
|                                              | "                                                     | 10,000                           | 10,000            | Guarantee deposit for futures dealer                                     |
|                                              | "                                                     | 241,606                          | 318,660           | CPC Corporation, Taiwan guarantee fulfillment                            |
|                                              | "                                                     | 49,500                           | -                 | Public welfare walkway guarantee fulfillment                             |
|                                              | "                                                     | -                                | -                 |                                                                          |

As of December 31, 2014 and 2013, the deposits for public welfare lottery issuance of the Bank's irrevocable standby letter of credit were \$1,050,000 and \$1,800,000.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS**

(A) Major commitments and contingencies

|                                                                     | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|---------------------------------------------------------------------|--------------------------|--------------------------|
| Contingent liabilities from guarantee and letter of credit business | \$ 62,629,544            | 81,450,857               |
| Promissory note to Central Bank for Bank's clearance                | 2,124,206                | 2,525,690                |
| Client notes in custody                                             | 92,353,292               | 99,859,943               |
| Marketable securities and debts in custody                          | 452,164,076              | 348,860,921              |
| Consigned travelers' checks in custody                              | 350,251                  | 471,388                  |
| Designated purpose trust accounts                                   | 819,397,816              | 806,531,112              |
| Other items in custody                                              | 402,644                  | 399,296                  |
| Total                                                               | <u>\$ 1,429,421,829</u>  | <u>1,340,099,207</u>     |

On September 1, 2012, the Bank signed a formal renewal of the services contract for information resources supply the Bank with International Business Machines, authorizing a five-year contract term commencing from September 1, 2012, and ending on August 31, 2017, for the amount of \$1,805,000, which includes a fixed monthly fee of \$7,844 comprising a host computer lease fee, an authorization fee, and an annual software maintenance fee.

The Bank was designated by the Ministry of Finance (the "MOF") as the issuing institution for the third and fourth term of public welfare lottery. The periods of for each term are from January 1, 2007 to December 31, 2013 and January 1, 2014 to December 31, 2023, respectively. The Bank was authorized to arrange and issue traditional lottery, scratch-and-win lottery, and computerized lottery tickets. For the third term of public welfare lottery, the Bank receives a commission for issuing lottery tickets, representing 4.35% of the total lottery sales amount. The commission will be settled monthly. And the Bank's profit will be what remains after a fixed payment of \$2,086,800 to the MOF per year. Meanwhile, for the fourth term of public welfare lottery, which commencing from January 1, 2014, the Bank receives a commission for issuing lottery tickets, representing 4.35% of the total lottery sales amount. The commission will be settled monthly. The Bank's profit will be what remains after a fixed payment of \$2,700,000 to the MOF per year. However, if the amount of annual total lottery sales of year of 2014 is less than 80% of promised sales, which is \$88.8 billion, then the Bank needs to pay 26.75% of the shortage between the promised and actual sales amount to the government. Furthermore, in order to ensure that the lottery prize pay-out rate is not greater than 60% of the lottery issuing amount, the Bank created a transitional monitoring account, provision for the lottery prize. By creating the account, the Bank also helps the Government to settle and distribute the public welfare earnings. The amount of provision for the lottery prize may be negative (debit) or positive (credit), depending on the possibility of winning the lottery. In accordance with MOF Tai-Cai-Ku No. 09800050290, the Bank has the financial responsibility for the negative provision for the lottery prize. When the period designated by the MOF ends and the amount of provision for the lottery prize is negative, the Bank has to absorb it. However, the Bank has already adopted appropriate risk control strategies in order to control the aforesaid financial risk.

On May 18, 2006, the Bank signed a contract with LotRich Information Co. for lottery software, hardware and maintenances services amounting to \$1,159,185(within which \$638,880 was for software service). The maintenance service sustains for six years, starting from August 2008 to July 2014. On May 31, 2013, the Bank signed a renewed contract for lottery software, hardware purchase and establishment and maintenances services amounting to \$2,322,756(within which \$1,633,581 was for software service). The maintenance service sustains for ten years, starting from January 2014 to December 2023.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The Bank entrusted Taiwan Lottery Co., Ltd. to operate the public welfare lottery's ticket issuing, sales, promotion, drawing, payment of prize, and management, with a contract period from January 1, 2007, and ending on June 30, 2014. The Bank will disburse 1.50% of the total lottery sales amount as commission to Taiwan Lottery Co., Ltd. monthly. Additionally, if the annual total lottery sales amount is over \$90 billion, the commission for the excess part (over \$90 billion) will be equal to 1.80% of the total excess lottery sales amount. The Bank signed an amended contract with Taiwan Lottery Co., Ltd. on July 9, 2008, and rescinded the guarantee deposit amounting to \$500,000. In addition, the Bank will disburse 1.20% of the total lottery sales amount as commission to Taiwan Lottery Co., Ltd. monthly from January 1, 2008. Additionally, if the annual total lottery sales amount is over \$90 billion, the commission for the excess part will be equal to 1.50% of the total excess lottery sales amount. On September 23, 2009, the Bank signed a second amended contract with Taiwan Lottery Co., Ltd., commencing from January 1, 2009, the Bank will distribute \$700 million as commission to Taiwan Lottery Co., Ltd. annually. Additionally, if the annual total lottery sales amount is over \$64 billion, the commission for the excess part (over \$64 billion) will be equal to 0.45% of the total excess lottery sales amount.

The Bank entrusted Taiwan Lottery Co., Ltd. to operate the public welfare lottery's ticket issuing, sales, promotion, drawing, payment of prize, and management, with a contract period from November 11, 2013, and ending on June 30, 2024. The Bank will disburse 4.35% of the total lottery sales amount as commission to Taiwan Lottery Co., Ltd.. The Bank agreed that Taiwan Lottery Co., Ltd. can receive a reward, amounting to the commission revenue after the deduction of value-added tax (VAT), rebates and direct costs incurred for the lottery business, and the addition of marginal benefits, if the balance is positive. Otherwise, Taiwan Lottery Co., Ltd. should pay for the discrepancy, if the balance is negative.

The Bank signed a large-scale Enterprise Enrollment procurement contract with SYSTEX Corporation (Taiwan Microsoft Dealer) with a six-year contract term ending on November 30, 2015. The total value of the contract with SYSTEX Corporation amounted to \$361,683, which will be paid in installments over a period of six years beginning from the effective date of the contract. As of June 30, 2014, \$64,807 is not yet paid.

On April 17, 2009, in order to show its determination to the disposal of Mega Financial Holding Company (Mega Financial) shares, the Bank authorized Bank of Taiwan (BOT) as the trustee to dispose of all Mega Financial shares during the contractual period. During the contractual period, BOT will represent the Bank to attend the Mega Financial annual shareholders' meeting and execute the voting rights, in compliance with the Ministry of Finance's direction. As of May 20, 2014, all Mega Financial shares have been disposed.

To help PT Bank CTBC Indonesia obtain financing facility, the Bank has issued Letters of Comfort to financial institutions on April 7, August 28 and November 5, 2014, to declare that the operation of the company is actively supported by the Bank. The credit application amounts are US\$25,000 thousand, US\$40,000 thousand and US\$16,500 thousand, respectively.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (B) The below information is shown based on the disclosure requirements of Enforcement Rules of the Trust Enterprise Act, Article 17.

**Balance Sheet of Trust Accounts**

| <b>Trust Assets</b>   | <b>December 31,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>Trust Liabilities</b>                              | <b>December 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|-----------------------|------------------------------|------------------------------|-------------------------------------------------------|------------------------------|------------------------------|
| Cash                  | \$ 38,982,722                | 40,159,904                   | Payables                                              | 328,377,483                  | 351,237,438                  |
| Bonds                 | 844,093                      | 803,175                      | Other liabilities                                     | 22,337                       | 20,706                       |
| Stocks                | 137,354,565                  | 124,547,701                  | Trust capital                                         | 456,782,014                  | 434,710,240                  |
| Mutual funds          | 284,592,101                  | 269,770,073                  | Miscellaneous reserves<br>and accumulated<br>earnings | 33,334,220                   | 19,889,090                   |
| Other investments     | 2,209,898                    | 3,884,825                    |                                                       |                              |                              |
| Receivables           | 1,228,675                    | 50,711                       |                                                       |                              |                              |
| Real estates—net      | 25,591,941                   | 16,057,602                   |                                                       |                              |                              |
| Securities in custody | 326,683,100                  | 350,582,908                  |                                                       |                              |                              |
| Other assets          | 1,028,959                    | 575                          |                                                       |                              |                              |
| Total trust assets    | <b>\$ 818,516,054</b>        | <b>805,857,474</b>           | Total trust liabilities                               | <b>818,516,054</b>           | <b>805,857,474</b>           |

**Properties Catalog of Trust Accounts**

| <b>Investments</b>                 | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|------------------------------------|--------------------------|--------------------------|
| Cash                               | \$ 38,982,722            | 40,159,904               |
| Bonds                              | 844,093                  | 803,175                  |
| Stocks                             | 137,354,565              | 124,547,701              |
| Mutual funds                       | 284,592,101              | 269,770,073              |
| Other investments                  | 2,209,898                | 3,884,825                |
| Securities in custody              | 326,683,100              | 350,582,908              |
| Real estates—net                   |                          |                          |
| Lands                              | 25,508,566               | 15,944,310               |
| Buildings                          | 83,375                   | 115,339                  |
| Accumulated depreciation—buildings | -                        | (2,047)                  |
| Subtotal                           | 25,591,941               | 16,057,602               |
| Other assets                       |                          |                          |
| Prepaid other payments             | 530                      | 575                      |
| Pledge of rights                   | 1,022,905                | -                        |
| Superficies                        | 5,524                    | -                        |
| Subtotal                           | 1,028,959                | 575                      |
| Total                              | <b>\$ 817,287,379</b>    | <b>805,806,763</b>       |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**Income Statement of Trust Accounts**  
**For the year ended December 31**

|                     | <b>2014</b>                | <b>2013</b>             |
|---------------------|----------------------------|-------------------------|
| Trust revenues      | \$ 5,442,838               | 5,037,621               |
| Trust expenses      | (309,637)                  | (502,029)               |
| Earnings before tax | 5,133,201                  | 4,535,592               |
| Income tax          | (35,596)                   | (30,352)                |
| Net profits         | <u><u>\$ 5,097,605</u></u> | <u><u>4,505,240</u></u> |

(C) Operating lease

Total amount of minimum future irrevocable operating lease payment of were as below:

|                   | <b>December 31, 2014</b>   | <b>December 31, 2013</b> |
|-------------------|----------------------------|--------------------------|
| Less than 1 year  | \$ 1,290,953               | 733,026                  |
| 1 year to 5 years | 2,092,633                  | 1,681,079                |
| More than 5 years | 630,179                    | 474,472                  |
| Total             | <u><u>\$ 4,013,765</u></u> | <u><u>2,888,577</u></u>  |

(D) Others

(a) Structured notes case

During September to December in 2005, the Bank's Hong Kong Branch, with approval of the board's directors, purchased structured notes ("oversea structured notes") from Barclays Bank PLC at par value US\$390 million. In the year 2006, the Bank's parent company, CTBC Financial Holding Co., Ltd. (CTBC Holding), intended to invest Mega Financial Holding Company. To comply with the requirement specified in the Banking Act of The Republic of China, which requires that a commercial bank shall not invest more than five percent (5%) shares of a company, Hong Kong Branch sold the above oversea structured notes at market price to Red Fire, a special purpose vehicle acquired by the former President of the Bank's Institutional Banking, Steven C.Z. Cheng. A profit of US\$8,448 thousand incurred due to the disposal. Subsequently, Red Fire filed an application of redemption of the structured notes to Barclays Bank PLC and incurred a profit amounting to US\$30.47 million. The opening balance of US\$9.5 million was embezzled by Steven C.Z. Cheng with malicious intent, while the rest of the amount (US\$20.90 million) was remitted to CTBC Holding's overseas sub-subsidiary. In considerations of maintaining operations, the institutional director of CTBC Holding remitted an advance payment of US\$30.47 million to the Bank in accordance to the request from the FSC. No loss had incurred since the remitted amount of US\$30.47 million was far greater than US\$9.50 million, which was not remitted to CTBC Holding's overseas sub-subsidiary. On April 28, 2011, the Bank received a letter from Chung Cheng Investment and Kuan Ho Construction & Development, the institutional directors of the CTBC Holding, informed that according to the Analysis Report on the Sale of Structured Notes to Red Fire by CTBC Bank's Hong Kong Branch (the "Analysis Report"), the attachment of the letter from CTBC Holding with Chung Hsin Chin No. 1002243570005, dated March 10, 2011, the Bank did not sustain loss from the sale of the structured notes. Based on the aforesaid Analysis Report, the premise of the Bank sustaining damages no longer stands for the prior execution of the contract dated February 9, 2009 by and among CTBC Holding, Chung Cheng Investment, and Kuan Ho Construction & Development. Therefore, the Bank has been requested to negotiate with Chung Cheng Investment and Kuan Ho Construction & Development for a

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

reasonable resolution. On August 16, 2011, the Bank sent a letter to Chung Cheng Investment and Kuan Ho Construction & Development requesting the institutional directors of the Bank's parent company, CTBC Holding, to withdraw the right of recourse regarding the advance payment of US\$30.47 million to the Bank. The institutional directors of the Bank's parent company, CTBC Holding, responded on August 18, 2011, agreeing to the request and wishing that the Bank spends US\$20.90 million of the advance payment on emergency assistance and public welfare loans and pays US\$9.57 million to the Bank's parent company, CTBC Holding, as recovery for the investment income which originally should have been recognized by the Bank's parent company, CTBC Holding. The latter amount was considered to be the investment income of CT Opportunity Investment Company, a sub-subsidiary of CTBC Holding. The Bank has not yet fulfilled the aforementioned requirement, and the institutional directors still insisted the amount of US\$20.90 million should be designated as the fund of welfare loans for emergency salvage. The matter will be proceeded once both parties reach agreement. Cited from the internal investigation and the opinion letter from the attorney designated by the Bank's parent company, CTBC Holding, Red Fire is believed to be CTBC Holding's SPV, since the ultimate profit and loss attribution belonged to CTBC Holding. In addition, from the perspective of cash flow, Jeffrey Koo, Jr., the former Chairman of the Bank, and the three involved employees did not obtain any personal benefits through the case.

On May 31, 2013, the judgment of the second instance was delivered by Taiwan High Court (please refer to the Law and Regulations retrieval system of the Judicial Yuan, Shang Chong-Su-Zi No. 54 in 2008 and Jin Shang Chong-Su-Zi No. 75 in 2010 Criminal Judgments for relevant information). After appealing for third instance, the Supreme Court of Republic of China has revoked the original verdict in August 2014 and urged Taiwan High Court to re-examine its verdict. In this case, Red Fire is the SPV of CTBC Holding. Thus, CTBC Holding did not sustain any loss, and Jeffrey Koo, Jr., the former Chairman of the Bank, and the three involved employees did not obtain any personal benefits through the case. Furthermore, citing from the legal opinion issued by CTBC Holding's outside counsel, "With regard to the legal aspects, the case above is a criminal case, and since CTBC Holding is a corporate entity, the employees' individual criminal liability will not have any influence on CTBC Holding. Therefore, there should be no significant disadvantageous effects on the financial or business affairs of CTBC Holding. Although the litigation result is not yet final, the outcome should not have negative impacts on the finance and operation of CTBC Holding substantially. Guilty or not, the fact that CTBC Holding has not suffered damage would not be changed as a result."

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(b) Others

As for the real estate and non-performing loans transactions among the Bank and Tectonics Laboratories Co., Ltd. and other related parties, some employees were accused in violations of Banking Act and Securities and Exchange Act for engaging in such transactions and not disclosing related-party transactions. The case was transferred by prosecutors to Taiwan High Court, who dismissed the case on May 31, 2013 as it was bundled with Shang Chong-Su-Zi No. 54 in 2008 and Jin Shang Chong-Su-Zi No. 75 in 2010 Criminal Judgments, indicating a separate investigation should be initiated. Currently, the prosecutors have requested the case to be heard simultaneously with the structured notes case by Taiwan High Court. The case is expected to have no significant effect on the Bank's operation and shareholders' equity.

**10. SIGNIFICANT CATASTROPHIC LOSSES: None.**

**11. SIGNIFICANT SUBSEQUENT EVENTS:**

To support the Bank's loan business and strengthen medium and long term liquidity, the Bank has issued 2015-1 unsecured financial debentures on January 19, 2015, with the issuance amount of US\$ 257 million.

With the approval of competent authorities on February 4, 2015, the Bank carried early redemptions of 2005-1 overseas perpetual accumulated subordinated financial debentures and 2008-2 perpetual accumulated subordinated financial debentures, amounting to US\$500 million and US\$700 million, respectively.

The Bank's proposal for the establishment of its Guangzhou branch has been authorized by China Banking Regulatory Commission on December 12, 2014. On January 28, 2015, Investment Commission of Ministry of Economic Affairs, R.O.C. has issued Jing-Shang-Er-Zi No. 10400016920 to grant the invested amount of US\$131,148 thousand (equivalent to CNY 800 million) as operating capital for the registration of the branch.

**12. OTHERS**

(A) Profitability

|                                 |                   | Unit: %           |                   |
|---------------------------------|-------------------|-------------------|-------------------|
| Items                           |                   | December 31, 2014 | December 31, 2013 |
| Return on assets ratio (annual) | Before income tax | 1.46              | 0.91              |
|                                 | After income tax  | 1.27              | 0.92              |
| Return on equity ratio (annual) | Before income tax | 22.97             | 13.00             |
|                                 | After income tax  | 19.95             | 13.07             |
| Net income ratio                |                   | 39.10             | 30.91             |

Note 1: Return on assets ratio = Net income before/after income tax ÷ average total assets.

Note 2: Return on equity ratio = Net income before/after income tax ÷ average total stockholders' equity.

Note 3: Net income ratio = Net income after income tax ÷ Net revenue.

Note 4: Net income before/after tax represented accumulated income of current year.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (B) The income and expenses arising from the joint marketing operation and information interoperability amongst the Financial Holding Company's subsidiaries were allocated as follows:

The joint marketing expenses between the Bank and CTBC Insurance Brokers Co., Ltd. ("CTBC Insurance Brokers") were allocated to the Bank's management division costs and bonuses based on input labor hours and profitability of insurance products. Furthermore, the ratios of realized commission earned from insurance companies for the Bank and CTBC Insurance Brokers are 70% and 30%, respectively.

The Bank and CTBC Life Insurance Co., Ltd. ("CTBC Life") have gained from the joint business promotion. The bonus for co-marketing with CTBC Life is shared based on annual commission rate agreed between the Bank and CTBC Life for each insurance product.

The aforesaid allocations of revenue and expenses are disclosed in Note 7.

- (C) The Acquisition of The Tokyo Star Bank, Ltd.

The Tokyo Star Bank, Ltd. obtained business license and permit on May 14, 2001, and commenced commercial banking operation on June 11, 2001. The services The Tokyo Star Bank, Ltd. provides to its customers are deposits and loans, debt endorsement guarantees, domestic and foreign remittances, marketable securities, debt management and collection, and other businesses. On June 5, 2014, the Bank acquired 100% equity stake of The Tokyo Star Bank, Ltd. by cash, and set it as a subsidiary that the Bank has 100% ownership. The Bank starts to recognize the acquiree's profit and losses after the acquisition is settled.

Gain from a bargain purchase was recognized by the Bank with the margin of identifiable net assets acquired at fair value against acquisition cost. The following shows the acquired assets and assumed liabilities of the Tokyo Star Bank, Ltd. on June 5, 2014 and the emerged amount of gain from a bargain purchase.

- (a) Acquisition cost

The Bank acquired 100% equity stake of The Tokyo Star Bank, Ltd. at \$15,665,085.

- (b) Identifiable assets acquired and liabilities assumed

The following table shows the fair value of acquired identifiable assets and assumed liabilities on the acquisition date and the emerged amount of gain from a bargain purchase.

|                                                |               |                        |
|------------------------------------------------|---------------|------------------------|
| Acquisition cost                               |               | \$ 15,665,085          |
| Acquiree's assets                              | 763,673,444   |                        |
| Acquiree's liabilities                         | (733,194,205) |                        |
| Fair value of identifiable net assets acquired | 30,479,239    |                        |
| Percentage acquired                            | 100%          | 30,479,239             |
| Gain from a bargain purchase                   |               | <u>\$ (14,814,154)</u> |



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (c) After referring to Japanese acquisition cases taking places in post financial-recession period, the Bank decided to apply regional banks' Price-Book Ratio to determine the acquisition cost of The Tokyo Star Bank, Ltd. Additionally, the difference between the fair value of net identifiable assets acquired and acquisition cost was recognized as gain from a bargain purchase. The gain from a bargain purchase is immediately recognized in current profit or loss in accordance to the requirement of IFRS 3. And the aforementioned fair value of identifiable net assets is evaluated based on the report issued by the specialists from the external consulting firms.
- (d) If the acquisition were to take place on January 1, 2014, the pro forma net revenue and after-tax net income of the Bank would be \$92,704,148 and \$34,977,217, respectively. This hypothesis is made by the management by assuming that the acquisition date falls on January 1, 2014 and tentative fair value adjustments emerged on the acquisition date are similar.
- (e) An expense of \$136,561 arose as a result of this acquisition.
- (f) In compliance with the requirements of Jin-Guan-Yin-Fa-Zi No. 10310006310 issued on December 30, 2014. While making a resolution on earnings distribution for next year's stockholders' meeting, the Bank needs to make a provision for a special reserve at the amount that is consistent with the increase of retained earnings attributed from a gain on bargain purchase. The aforesaid special reserve cannot be reversed within one year. Subsequent to the one-year restriction, the special reserve can be used to make up losses, and can also be capitalized if, after assessment, no unexpected significant impairment has incurred and with consent gained from a certified public accountant.

### 13. Disclosure Required

(A) Related information on significant transactions

- (a) Loans to others businesses or individuals: Not applicable to bank subsidiaries; others: None.
- (b) Endorsements and guarantees for others: Not applicable to bank subsidiaries; others: None.
- (c) Marketable securities held as of December 31, 2014 (excluding invested subsidiaries, associates and joint ventures): Not applicable to banking subsidiaries; others: None.
- (d) Cumulative purchases or sales of the same investee's capital stock over \$300,000 or 10% of paid-in capital:

Unit : In Thousands of New Taiwan Dollars/ Thousands of shares

| Acquiring/<br>selling<br>company | Marketable<br>securities<br>type and<br>name | Account                              | Counterparty                 | Relationship                                        | Beginning           |        | Acquisition         |            | Disposition         |               |               |                          | Ending (Note)       |            |
|----------------------------------|----------------------------------------------|--------------------------------------|------------------------------|-----------------------------------------------------|---------------------|--------|---------------------|------------|---------------------|---------------|---------------|--------------------------|---------------------|------------|
|                                  |                                              |                                      |                              |                                                     | Number<br>of shares | Amount | Number<br>of shares | Amount     | Number<br>of shares | Sell<br>price | Book<br>value | Gain/loss<br>on disposal | Number<br>of shares | Amount     |
| CTBC Bank<br>Co., Ltd.           | Investment<br>under equity<br>method         | Investment<br>under equity<br>method | The Tokyo<br>Star Bank, Ltd. | A subsidiary that<br>the Bank has<br>100% ownership | -                   | -      | 700                 | 15,665,085 | -                   | -             | -             | -                        | 700                 | 29,644,718 |

Note: Gain from a bargain purchase and recognized investment profit/loss are encompassed in the ending balance.



**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(e) Acquisition of real estate over \$300,000 or 10% of paid-in capital:

Unit : In Thousands of New Taiwan Dollars

| Acquiring company   | Name of property   | Transaction date | Transaction amount | Payment status | Counterparty                               | Relationship       | Previous transfer data when counterparty is related party |                          |               |        | Reference for acquisition price | Acquisition purpose and use status | Other additional term |
|---------------------|--------------------|------------------|--------------------|----------------|--------------------------------------------|--------------------|-----------------------------------------------------------|--------------------------|---------------|--------|---------------------------------|------------------------------------|-----------------------|
|                     |                    |                  |                    |                |                                            |                    | Owner                                                     | Relationship with issuer | Transfer date | Amount |                                 |                                    |                       |
| CTBC Bank Co., Ltd. | Land and buildings | May 21, 2013     | 1,289,000          | 973,560        | Yung-Yue Construction and Development Co., | Non-related party. | N/A                                                       | N/A                      | N/A           | -      | Valuation report                | For owner's use                    | note                  |

Note: Building ownership will be transferred to the Bank once the building is completed. In addition, the Bank has made four payments in accordance to the contract.

(f) Disposal of real estate over \$300,000 or 10% of paid-in capital: None.

(g) Discount on commission fees for transaction with related parties over \$5,000: None.

(h) Receivables from related parties over \$300,000 or 10% of paid-in capital:

Unit : In Thousands of New Taiwan Dollars

| Account receivable creditor | Counterparty                     | Relationship                                            | Balance due from related party | Turnover rate | Overdue from related party |          | Subsequent collections from related party   | Provision for bad debt |
|-----------------------------|----------------------------------|---------------------------------------------------------|--------------------------------|---------------|----------------------------|----------|---------------------------------------------|------------------------|
|                             |                                  |                                                         |                                |               | Amount                     | Disposal |                                             |                        |
| CTBC Bank Co., Ltd.         | CTBC Insurance Brokers Co., Ltd. | Controlled by the same company which controls the Bank. | 513,024                        | - %           | -                          | -        | Collected \$513,004 as of February 10, 2015 | -                      |

(i) Financial derivative transactions: Not applicable to bank subsidiaries; others: None.

(j) Information on NPL disposal transaction:

1. Summary table of NPL disposal:

Unit : In Thousands of US Dollars/ Thousands of JPY Dollars /Thousands of New Taiwan Dollars

| Trade date      | Counterparty                                   | Debt component   | Book value    | Sale price    | Gain (loss) on disposal | Additional term | Relationship      |
|-----------------|------------------------------------------------|------------------|---------------|---------------|-------------------------|-----------------|-------------------|
| March 19, 2014  | CATHY BANK                                     | Secured loan     | USD 3,194     | USD 5,621     | USD 2,427               | None            | Non-related party |
| April 2, 2014   | Citibank International plc                     | Non-secured loan | 151,602       | 76,627        | (74,975)                | "               | "                 |
| July 18, 2014   | CATHY BANK                                     | Secured loan     | USD 7,717     | USD 7,717     | USD -                   | "               | "                 |
| July 25, 2014   | IR Loan Servicing, Inc.                        | "                | JPY 27,469    | JPY 36,170    | JPY 8,701               | "               | "                 |
| July 31, 2014   | Morgan Stanley Credit Products Japan Co., Ltd. | "                | JPY 3,490,187 | JPY 3,249,000 | JPY (241,187)           | "               | "                 |
| August 20, 2014 | IR Loan Servicing, Inc.                        | Non-secured loan | JPY 122,522   | JPY 151,973   | JPY 29,451              | "               | "                 |

2. Disposal of a single batch of NPL over \$1,000,000 and information on each transaction: None.

(k) Types of securitization instruments approved to be issued pursuant to financial assets

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

securitization rules or real estate securitization rules and other relevant information:  
None.

- (l) Business relationship and material transaction between the parent company and subsidiaries:

| No.<br>(Note) | Party               | Counterparty                  | Relationship         | Transaction status for the year ended December 31, 2014 |           |                                    |                                                                      |
|---------------|---------------------|-------------------------------|----------------------|---------------------------------------------------------|-----------|------------------------------------|----------------------------------------------------------------------|
|               |                     |                               |                      | Account                                                 | Amount    | Terms                              | Percentage of consolidated net revenues or consolidated total assets |
| 0             | CTBC Bank Co., Ltd. | CTBC Bank (Philippines) Corp. | Parent to subsidiary | Due from Central Bank and call loans to bank            | 2,006,650 | Identical with non-related parties | 0.09%                                                                |
| "             | "                   | PT. Bank CTBC Indonesia       | "                    | Deposits and remittance/ cash and cashequivalents       | 100,667   | "                                  | 0.005%                                                               |

Note: Serial number is determined as follows:

1. 0 represents parent company.
  2. Subsidiaries are numbered in a sequence of Arabic numerals from 1 based on company category.
- (m) Other significant transactions that may have substantial influence upon the decisions made by financial statement users: None.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(B) Related information on investee companies

Unit: In Thousands of New Taiwan Dollars/Thousands of shares

Unit: In Thousands of New Taiwan Dollars/Thousands of shares

| Name of investee                  | Location                                                                                                 | Major operations                                               | Ending ratio of shares | Book value of investment | Investment gains/losses recognized in current period | Ratio of shares held by the Bank and its associates |                   |                                         |                 | Remarks                                                                                        |
|-----------------------------------|----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|------------------------|--------------------------|------------------------------------------------------|-----------------------------------------------------|-------------------|-----------------------------------------|-----------------|------------------------------------------------------------------------------------------------|
|                                   |                                                                                                          |                                                                |                        |                          |                                                      | Shares currently held                               | Shares to be held | Total                                   |                 |                                                                                                |
|                                   |                                                                                                          |                                                                |                        |                          |                                                      |                                                     |                   | shares                                  | Ratio of shares |                                                                                                |
| CTBC Bank (Philippines) Corp.     | 3rd Fl., Tower One, Ayala Triangle, Ayala Avenue cor. Paseo De Roxas, Metro Manilla, Makati, Philippines | Primarily engages in commercial banking and financing business | 99.60 %                | 4,912,730                | 34,644                                               | 246,496                                             | -                 | 246,496                                 | 99.60%          | The transaction on the left has been written off when composing consolidated financial report. |
| PT Bank CTBC Indonesia            | 16th Fl,Wisma Tamara, Jl Jenderal Sudirman Kev. 24 Jakarta 12920 Indonesia                               | Primarily engages in commercial banking and financing business | 99.00 %                | 6,130,569                | 626,434                                              | 1                                                   | -                 | 1                                       | 99.00%          | "                                                                                              |
| CTBC Bank Corp.(Canada)           | 1518 West Broadway, Vancouver, B.C., Canada, V6J 1W8                                                     | Primarily engages in commercial banking and financing business | 100.00 %               | 1,170,335                | 39,823                                               | 2,312                                               | -                 | 2,312                                   | 100.00%         | "                                                                                              |
| CTBC Capital Corp.                | 801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017                                                | Investment business                                            | 100.00 %               | 20,626,645               | 416,643                                              | 6                                                   | -                 | 6                                       | 100.00%         | "                                                                                              |
| Grand Bills Finance Corporation   | 11F., No.560, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)                    | Proprietary traders of short-term bills and bonds              | 21.15 %                | 1,768,036                | 97,201                                               | 114,399                                             | -                 | 114,399                                 | 21.15%          |                                                                                                |
| GCB Finance (HK) Limited          | Room 2812, 28th Floor, Two International Finance Centre, 8 Finance Street Central, Hong Kong             | Corporate credit and investment business                       | 100.00 %               | 242,930                  | (114,393)                                            | 50,000                                              | -                 | 50,000                                  | 100.00%         |                                                                                                |
| CTBC Bank Corp.(USA)              | 801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017                                                | Primarily engages in commercial banking and financing business | 100.00%                | 12,510,834               | 327,575                                              | Common shares 3<br>Preferred shares 100             | -                 | Common shares 3<br>Preferred shares 100 | 100.00%         | The transaction on the left has been written off when composing consolidated financial report. |
| The Tokyo Star Bank, Ltd.         | 2-3-5 Akasaka, Minato-Ku, Tokyo, 107-8480, Japan                                                         | Primarily engages in commercial banking and financing business | 100.00%                | 29,644,718               | 2,651,948                                            | 700                                                 | -                 | 700                                     | 100.00%         | "                                                                                              |
| TSB Capital, Ltd.                 | 2-7-1,Nishi-Shinjuku, Shinjuku, Tokyo                                                                    | Financing and assurance business                               | 100.00%                | 2,866,260                | 89,796                                               | 1,936                                               | -                 | 1,936                                   | 100.00%         | "                                                                                              |
| TSB Servicer, Ltd.                | 2-2-17,Akasaka, Minato, Tokyo                                                                            | Debt management business                                       | 100.00%                | 442,073                  | 12,919                                               | -                                                   | -                 | -                                       | 100.00%         | "                                                                                              |
| Tokyo Star Business Finance, Ltd. | 2-2-17,Akasaka, Minato, Tokyo                                                                            | Financing business                                             | 100.00%                | 51,702                   | 8,126                                                | 5                                                   | -                 | 5                                       | 100.00%         | "                                                                                              |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(C) Related information on investments in Mainland China:

(a) Related information on investee companies in Mainland China

Unit : In Thousands of New Taiwan Dollars/ Thousands of US Dollars

| Name of investee company in Mainland China | Main business      | Total amount of paid-in capital | Method of investment (Note 1) | Accumulated outflow of investment from Taiwan as of January 1, 2014 | Investment flows |        | Accumulated outflow of investment from Taiwan as of December 31, 2014 | Percentage of ownership for direct or indirect investment | Investment gains (losses) (Note 2(c)) | Book value as of December 31, 2014 | Accumulated inward remittance of earnings as of December 31, 2014 |
|--------------------------------------------|--------------------|---------------------------------|-------------------------------|---------------------------------------------------------------------|------------------|--------|-----------------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------------------------------------------------|
|                                            |                    |                                 |                               |                                                                     | Outflow          | Inflow |                                                                       |                                                           |                                       |                                    |                                                                   |
| CTBC Bank Co., Ltd., Shanghai Branch       | Commercial banking | 6,194,068<br>USD 206,045        | 3                             | 6,194,068<br>USD 206,045                                            | -                | -      | 6,194,068<br>USD 206,045                                              | A branch in Shanghai; not an investee                     | 162,024<br>USD 5,351                  | 6,764,069<br>USD 213,256           | None.                                                             |
| CTBC Bank Co., Ltd., Guangzhou Branch      | "                  | -                               | 3                             | -                                                                   | -                | -      | -                                                                     | A branch in Guangzhou; not an investee                    | Still in preparation.                 | -                                  | "                                                                 |

Note 1: Three methods of investment are as below; identify one of them:

1. Invest in Mainland China companies directly.
2. Re-invest in Mainland China companies through another investee in a third area. (Please identify the investee in the third area.)
3. Other method: set up new overseas branches.

Note 2: The column of "Investment gains (losses)":

1. If the company is still in the preparation process, and does not have any investment gain or loss, please specify.
2. The bases for recognition of investment income or loss have three methods, please specify.
  - a. The audited financial reports that are issued by an international accounting firm which is connected to an accounting firm in Taiwan.
  - b. The audited financial reports that are issued by the Taiwan parent company's designated accounting firm.
  - c. Others: the individual profit or loss of an overseas branch.

(b) Upper limit on investment in Mainland China:

Unit : In Thousands of New Taiwan Dollars/Thousands of US Dollars

| Name of investor company | Accumulated outflow of investment from Taiwan to Mainland China as of December 31, 2014 | Investment amounts authorized by Investment Commission, MOEA | Upper limit on investment authorized by Investment Commission, MOEA |
|--------------------------|-----------------------------------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------|
| CTBC Bank Co., Ltd.      | 6,194,068<br>USD 260,045                                                                | 6,622,179<br>USD 208,783                                     | 117,967,570<br>USD 3,719,263                                        |

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**14. Segment Information:**

The Bank and its subsidiaries' provide their chief operating decision maker with necessary information according to the characteristics of the business, to facilitate the assessment of performance and allocation of operational resources. The disclosures of assets, profits and losses are the same as the summary of significant accounting policies described in Note 4.

According to IFRS 8 "Operating Segments", reportable segments are as below:

The major operating activities of Institutional Banking are commercial banking and capital market activities which provide clients with flexible and tailor-made financing services and the design, supply, and propriety trading of various financial products.

The major operating activity of Retail Banking is providing target clients with relevant financial services, including wealth management, credit cards, secured loans, and unsecured individual loans.

The major operationing activities of Japan Business are conducted by The Tokyo Star Bank, Ltd.

The major operating activities of other segments are investing and general administration. For the year ended December 31, 2014 and 2013, the above operating segments did not meet the criteria for reportable segments when applying quantitative thresholds.

**(A) Segment information**

| <b>For the year ended December<br/>31, 2014</b>                            | <b>Institutional<br/>Banking</b> | <b>Retail<br/>Banking</b> | <b>Japanese<br/>Business</b> | <b>Other<br/>segments<br/>(Note)</b> | <b>Total</b>         |
|----------------------------------------------------------------------------|----------------------------------|---------------------------|------------------------------|--------------------------------------|----------------------|
| Net interest income                                                        | \$ 18,106,103                    | 13,700,141                | 6,182,829                    | 270,754                              | 38,259,827           |
| Non-interest income                                                        | 9,458,818                        | 19,250,980                | 2,934,861                    | 17,745,523                           | 49,390,182           |
| Net income                                                                 | 27,564,921                       | 32,951,121                | 9,117,690                    | 18,016,277                           | 87,650,009           |
| (Provision for) reversal of bad<br>debt expenses and guarantee<br>reserves | (733,807)                        | 1,906,455                 | 537,828                      | (4,748,453)                          | (3,037,977)          |
| Operating expenses                                                         | (14,393,455)                     | (20,199,515)              | (5,916,915)                  | (4,643,684)                          | (45,153,569)         |
| Net Income Before Tax                                                      | <u>\$ 12,437,659</u>             | <u>14,658,061</u>         | <u>3,738,603</u>             | <u>8,624,140</u>                     | <u>39,458,463</u>    |
| Total Assets                                                               | <u>\$ 1,768,785,219</u>          | <u>577,809,934</u>        | <u>784,251,391</u>           | <u>104,326,258</u>                   | <u>3,235,172,802</u> |

| <b>For the year ended December<br/>31, 2013</b>                            | <b>Institutional<br/>Banking</b> | <b>Retail<br/>Banking</b> | <b>Japanese<br/>Business</b> | <b>Other<br/>segments<br/>(Note)</b> | <b>Total</b>         |
|----------------------------------------------------------------------------|----------------------------------|---------------------------|------------------------------|--------------------------------------|----------------------|
| Net interest income                                                        | \$ 13,367,109                    | 14,464,360                | 241,229                      | 233,448                              | 28,306,146           |
| Non-interest income                                                        | 10,272,487                       | 18,076,394                | (24,908)                     | 4,169,998                            | 32,493,971           |
| Net income                                                                 | 23,639,596                       | 32,540,754                | 216,321                      | 4,403,446                            | 60,800,117           |
| (Provision for) reversal of bad<br>debt expenses and guarantee<br>reserves | (1,055,386)                      | 706,353                   | (3,339)                      | (5,826,447)                          | (6,178,819)          |
| Operating expenses                                                         | (12,120,429)                     | (20,389,407)              | (213,814)                    | (3,208,143)                          | (35,931,793)         |
| Net Income Before Tax                                                      | <u>\$ 10,463,781</u>             | <u>12,857,700</u>         | <u>(832)</u>                 | <u>(4,631,144)</u>                   | <u>18,689,505</u>    |
| Total Assets                                                               | <u>\$ 1,481,759,269</u>          | <u>573,038,871</u>        | <u>17,794,507</u>            | <u>82,751,388</u>                    | <u>2,155,344,035</u> |

Note: Due to the acquisition of The Tokyo Star Bank, Ltd., gain from a bargain purchase of \$14,814,154 has been included.

**CTBC BANK CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(B) Geographic segment information:

The Bank and its subsidiaries prepare geographic segment information, which is shown as below, by the geographic location of foreign operations.

| <b>Region</b>        | <b>For the year ended December 31,</b> |                   |
|----------------------|----------------------------------------|-------------------|
|                      | <b>2014</b>                            | <b>2013</b>       |
| Net income :         |                                        |                   |
| Taiwan               | \$ 65,725,246                          | 49,665,705        |
| Asia                 | 19,083,383                             | 8,874,248         |
| North America        | 2,841,380                              | 2,260,164         |
| Total                | <b>\$ 87,650,009</b>                   | <b>60,800,117</b> |
| Non-current assets : |                                        |                   |
| Taiwan               | \$ 73,484,115                          | 52,663,332        |
| Asia                 | 8,510,339                              | 2,500,956         |
| North America        | 2,376,546                              | 2,227,703         |
| Total                | <b>\$ 84,371,000</b>                   | <b>57,391,991</b> |

- (C) Information on major customers: For the years ended December 31, 2014 and 2013, no individual customer of the Bank and its subsidiaries accounted for 10% or more of the Bank and its subsidiaries' revenue in the statements of income. Therefore, disclosure of information on major customers is not required.

**CTBC BANK CO., LTD.**  
**FINANCIAL REPORTS**  
**DECEMBER 31, 2014 AND 2013**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

**Address: No.166, 168, 170, 186, 188 Jingmao 2nd Rd., Nangang Dist., Taipei City 115, Taiwan, R.O.C.**  
**Telephone Number: 886-2-3327-7777**





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### Independent Auditors' Report

The Board of Directors  
CTBC Bank Co., Ltd.

We have audited the accompanying balance sheets of CTBC Bank Co., Ltd. as of December 31, 2014 and 2013, and related comprehensive income statements, changes in stockholders' equity, and cash flows for the year ended December 31, 2014 and 2013. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements mentioned above present fairly, in all material respects, the financial position of CTBC Bank Co., Ltd. as of December 31, 2014 and 2013, along with its financial performance and cash flow for the year ended December 31, 2014 and 2013, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, the Regulations Governing the Preparation of Financial Reports by Securities Firms and the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants.

The structured notes cases as stated in Note 9(D) are still under investigation by the judiciary, and the results remain uncertain.

Taipei, Taiwan, R.O.C.  
March 31, 2015

#### Notice to Readers

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

It should be noted the independent auditors' report and the accompanying financial reports were originally prepared in Chinese. As information loss underlies the nature of language transition, when conflicts or ambiguities arise in interpretations between the two versions, the Chinese version shall prevail.

**CTBC BANK CO., LTD.**  
**BALANCE SHEETS**  
**December 31, 2014 and 2013**  
**(Expressed in Thousands of New Taiwan Dollars)**

|                                                                                              | December 31, 2014       |            | December 31, 2013    |            |                                                                                       | December 31, 2014 |                      | December 31, 2013 |    |
|----------------------------------------------------------------------------------------------|-------------------------|------------|----------------------|------------|---------------------------------------------------------------------------------------|-------------------|----------------------|-------------------|----|
|                                                                                              | Amount                  | %          | Amount               | %          |                                                                                       | Amount            | %                    | Amount            | %  |
| <b>ASSETS</b>                                                                                |                         |            |                      |            |                                                                                       |                   |                      |                   |    |
| Cash and cash equivalents (Note 4 and 6(A))                                                  | \$ 94,807,281           | 4          | 81,377,414           | 4          |                                                                                       | \$ 43,343,324     | 2                    | 48,126,875        | 2  |
| Due from Central Bank and call loans to bank (Note 6(B) and 8)                               | 160,079,341             | 7          | 113,876,526          | 5          |                                                                                       | 2,046,323         | -                    | 3,217,210         | -  |
| Financial assets measured at fair value through profit or loss (Note 4, 6(C) and (S), and 7) | 160,040,166             | 4          | 73,702,161           | 4          |                                                                                       | 84,348,136        | 4                    | 27,256,378        | 1  |
| Available-for-sale financial assets—net (Note 4, 6(D) and (S), 8, and 9(A))                  | 331,683,821             | 14         | 287,574,678          | 14         |                                                                                       | 916,322           | -                    | 255,112           | -  |
| Derivative financial assets—hedging (Note 4 and 6(E))                                        | 1,499,486               | -          | 910,113              | -          |                                                                                       | 60,230,776        | 3                    | 61,038,194        | 3  |
| Receivables—net (Note 4, 6(F) and (I), 7, and 8)                                             | 170,879,699             | 7          | 164,100,960          | 8          |                                                                                       | 58,153,989        | 2                    | 43,296,875        | 2  |
| Current income tax assets (Note 4)                                                           | 824,156                 | -          | 910,400              | -          |                                                                                       | 1,956,306         | -                    | 1,311,106         | -  |
| Assets held for sale—net (Note 4 and 6(G))                                                   | 6,323,343               | -          | 6,323,343            | -          |                                                                                       | 1,827,244,890     | 76                   | 1,665,207,157     | 80 |
| Loans—net (Note 4, 6(H) and (I), and 7)                                                      | 1,316,825,892           | 55         | 1,201,424,577        | 58         |                                                                                       | 89,912,910        | 4                    | 58,269,949        | 3  |
| Held-to-maturity financial assets—net (Note 4, 6(I), (K) and (S), and 8)                     | 68,570,038              | 3          | 60,392,499           | 2          |                                                                                       | 13,568,429        | 1                    | 15,656,655        | 1  |
| Investment under equity method—net (Note 4, 6(L), and 12(C))                                 | 64,485,963              | 3          | 31,914,655           | 2          |                                                                                       | 5,049,393         | -                    | 4,983,852         | -  |
| Other financial assets—net (Note 4, 6(J) and (N), and 8)                                     | 3,873,186               | -          | 2,266,138            | -          |                                                                                       | 355,712           | -                    | 254,453           | -  |
| Premises and equipment—net (Note 4 and 6(N))                                                 | 40,530,456              | 2          | 33,595,951           | 2          |                                                                                       | 4,797,698         | -                    | 5,603,100         | -  |
| Intangible assets—net (Note 4 and 6(O))                                                      | 11,809,948              | -          | 11,844,172           | 1          |                                                                                       | -                 | -                    | -                 | -  |
| Deferred income tax assets—net (Note 4 and 6(AA))                                            | 3,617,720               | -          | 2,520,111            | -          |                                                                                       | -                 | -                    | -                 | -  |
| Other assets—net (Note 4, 6(P), and 8)                                                       | 22,576,328              | 1          | 8,593,580            | -          |                                                                                       | 2,191,824,208     | 92                   | 1,934,476,916     | 92 |
| <b>TOTAL ASSETS</b>                                                                          | <b>\$ 2,388,436,824</b> | <b>100</b> | <b>2,081,327,678</b> | <b>100</b> |                                                                                       |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | <b>LIABILITIES AND EQUITY</b>                                                         |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Liabilities:                                                                          |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Deposits from Central Bank and other banks (Note 6(Q))                                |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Due to Central Bank and other banks (Note 6(R))                                       |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Financial liabilities measured at fair value through profit or loss (Note 4 and 6(C)) |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Derivative financial liabilities—hedging (Note 4 and 6(E))                            |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Securities sold under repurchase agreements (Note 4, 6(S) and 7)                      |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Payables (Note 6(T) and 7)                                                            |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Current income tax liabilities (Note 4)                                               |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Deposits and remittances (Note 6(U) and 7)                                            |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Financial debentures (Note 6(C), (E) and (V))                                         |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Other financial liabilities (Note 6(W))                                               |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Provisions (Note 4, 6(I), (X) and (Z))                                                |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Deferred tax liabilities (Note 4 and 6(AA))                                           |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Other liabilities (Note 6(Y))                                                         |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | <b>Total Liabilities</b>                                                              |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | <b>Stockholders' Equity:</b>                                                          |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Common stock (Note 6(AC))                                                             |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Capital surplus (Note 6(AC))                                                          |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Capital premium                                                                       |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Others                                                                                |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Retained earnings                                                                     |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Legal reserve                                                                         |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Special reserve                                                                       |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Undistributed earnings (Note 6(AD))                                                   |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | Other equity interest (Note 6(AC))                                                    |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | <b>Total Equity</b>                                                                   |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | <b>TOTAL LIABILITIES AND EQUITY</b>                                                   |                   |                      |                   |    |
|                                                                                              |                         |            |                      |            | <b>\$ 2,388,436,824</b>                                                               | <b>100</b>        | <b>2,081,327,678</b> | <b>100</b>        |    |

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

**CTBC BANK CO., LTD.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**For The Year Ended December 31, 2014 And 2013**  
**(Expressed In Thousands of New Taiwan Dollars)**

|                                                                                                         | For the year ended December 31 |      |              |      |          |
|---------------------------------------------------------------------------------------------------------|--------------------------------|------|--------------|------|----------|
|                                                                                                         | 2014                           |      | 2013         |      |          |
|                                                                                                         | Amount                         | %    | Amount       | %    | Change % |
| Interest income (Note 6(AG))                                                                            | \$ 45,540,893                  | 59   | 38,154,954   | 64   | 19       |
| Less: Interest expenses (Note 6(AG))                                                                    | (17,505,449)                   | (23) | (13,624,343) | (23) | 28       |
| Net interest income                                                                                     | 28,035,444                     | 36   | 24,530,611   | 41   | 14       |
| Net income except interest                                                                              |                                |      |              |      |          |
| Service fee and commission income (Note 6(AH))                                                          | 26,181,628                     | 34   | 24,028,242   | 40   | 9        |
| Gains on financial assets or liabilities measured at fair value through profit or loss (Note 6(AI))     | 10,430,361                     | 13   | 5,373,877    | 9    | 94       |
| Realized gains on available-for-sale financial assets (Note 6(AJ))                                      | 660,139                        | 1    | 1,394,551    | 2    | (53)     |
| Realized gain on held-to-maturity financial assets                                                      | 66,684                         | -    | -            | -    | 100      |
| Foreign exchange (losses) gains                                                                         | (4,594,094)                    | (6)  | 1,825,088    | 3    | (352)    |
| Impairment loss (Note 6(AK))                                                                            | (22,320)                       | -    | (21,722)     | -    | (3)      |
| Proportionate share of gains from associates or joint ventures under equity method (Note 6(L))          | 3,752,300                      | 5    | 4,120,574    | 7    | (9)      |
| Other net non-interest income (Note 6(AL))                                                              | 679,939                        | 1    | 869,860      | 1    | (22)     |
| Gain from a bargain purchase (Note 12(C))                                                               | 14,814,154                     | 19   | -            | -    | 100      |
| Public-welfare lottery payment                                                                          | (2,700,000)                    | (3)  | (2,086,800)  | (3)  | (29)     |
| Net Revenue                                                                                             | 77,304,235                     | 100  | 60,034,281   | 100  | 29       |
| Provisions for bad debt expenses and guarantee reserve (Note 6(I) and (AM))                             | (3,342,271)                    | (4)  | (5,999,304)  | (10) | (44)     |
| Operating expenses:                                                                                     |                                |      |              |      |          |
| Employee benefits expenses (Note 6(AN))                                                                 | (19,855,064)                   | (26) | (18,557,718) | (31) | 7        |
| Depreciation and amortization expenses (Note 6(AO))                                                     | (1,591,007)                    | (2)  | (1,625,951)  | (3)  | (2)      |
| Other general and administrative expenses (Note 6(AP))                                                  | (14,979,577)                   | (19) | (12,359,123) | (20) | 21       |
| Total operating expenses                                                                                | (36,425,648)                   | (47) | (32,542,792) | (54) | 12       |
| Net Income Before Tax from Continuing Operations                                                        | 37,536,316                     | 49   | 21,492,185   | 36   | 75       |
| Income tax expenses (Note 6(AA))                                                                        | (3,274,138)                    | (4)  | (2,707,279)  | (5)  | (21)     |
| Net Income                                                                                              | 34,262,178                     | 45   | 18,784,906   | 31   | 82       |
| Other comprehensive income:                                                                             |                                |      |              |      |          |
| Exchange differences of overseas subsidiaries' financial reports translation                            | 456,627                        | 1    | (935,092)    | (2)  | 149      |
| Unrealized valuation (losses) gains on available-for-sale financial assets                              | (364,724)                      | -    | 6,309        | -    | (5,881)  |
| Actuarial (losses) gains on defined benefit plans                                                       | (365,718)                      | -    | 38,632       | -    | (1,047)  |
| Proportionate share of other comprehensive losses from associates or joint ventures under equity method | (19,904)                       | -    | (440,660)    | -    | 95       |
| Others                                                                                                  | 464,012                        | 1    | -            | -    | 100      |
| Income tax related to components of other comprehensive income (Note 6(AA))                             | 329,383                        | -    | 206,779      | -    | (59)     |
| Other comprehensive income (net amount after tax)                                                       | 499,676                        | 2    | (1,124,032)  | (2)  | 144      |
| Total Comprehensive Income                                                                              | \$ 34,761,854                  | 47   | 17,660,874   | 29   | 97       |
| Earnings per share (unit:NT dollars) (Note 6(AF))                                                       | \$ 3.86                        |      | 2.22         |      |          |

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

**CTBC BANK CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For The Year Ended December 31, 2014 And 2013**  
**(Expressed In Thousands of New Taiwan Dollars)**

|                                                | Capital stock | Retained earnings |               |                 | Exchange differences of overseas subsidiaries' financial reports translation | Unrealized (losses) gains on available-for-sale financial assets | Others  | Total equity |
|------------------------------------------------|---------------|-------------------|---------------|-----------------|------------------------------------------------------------------------------|------------------------------------------------------------------|---------|--------------|
|                                                | Common stock  | Capital surplus   | Legal reserve | Special reserve | Undistributed earnings                                                       |                                                                  |         |              |
| <b>Balance—January 1, 2013</b>                 | \$ 75,371,376 | 17,182,059        | 34,142,459    | 1,975,805       | 15,314,843                                                                   | (94,351)                                                         | -       | 140,494,840  |
| Net income                                     | -             | -                 | -             | -               | 18,784,906                                                                   | -                                                                | -       | 18,784,906   |
| Other comprehensive income                     | -             | -                 | -             | -               | (6,832)                                                                      | (721,745)                                                        | -       | (1,124,032)  |
| Total comprehensive income                     | -             | -                 | -             | -               | 18,778,074                                                                   | (395,455)                                                        | -       | 17,660,874   |
| Earnings appropriation and distribution (Note) |               |                   |               |                 |                                                                              |                                                                  |         |              |
| Legal reserve                                  | -             | -                 | 5,520,133     | -               | (5,520,133)                                                                  | -                                                                | -       | -            |
| Cash dividends-common stock                    | -             | -                 | -             | -               | (11,304,952)                                                                 | -                                                                | -       | (11,304,952) |
| Stock dividends-common stock                   | 3,251,521     | -                 | -             | -               | (3,251,521)                                                                  | -                                                                | -       | -            |
| Reversal from special reserve                  | -             | -                 | -             | (1,675,870)     | 1,675,870                                                                    | -                                                                | -       | -            |
| <b>Balance—December 31, 2013</b>               | 78,622,897    | 17,182,059        | 39,662,592    | 299,935         | 15,692,181                                                                   | (489,806)                                                        | -       | 146,850,762  |
| Net income                                     | -             | -                 | -             | -               | 34,262,178                                                                   | -                                                                | -       | 34,262,178   |
| Other comprehensive income                     | -             | -                 | -             | -               | (260,486)                                                                    | 581,980                                                          | 464,012 | 499,676      |
| Total comprehensive income                     | -             | -                 | -             | -               | 34,001,692                                                                   | (285,830)                                                        | 464,012 | 34,761,854   |
| Earnings appropriation and distribution (Note) |               |                   |               |                 |                                                                              |                                                                  |         |              |
| Legal reserve                                  | -             | -                 | 4,707,654     | -               | (4,707,654)                                                                  | -                                                                | -       | -            |
| Special reserve                                | -             | -                 | -             | 4,514,552       | (4,514,552)                                                                  | -                                                                | -       | -            |
| Stock dividends-common stock                   | 6,469,878     | -                 | -             | -               | (6,469,878)                                                                  | -                                                                | -       | -            |
| Cash capital increase by cash                  | 6,000,000     | 9,000,000         | -             | -               | -                                                                            | -                                                                | -       | -            |
| <b>Balance—December 31, 2014</b>               | \$ 91,092,775 | 26,182,059        | 44,370,246    | 4,814,487       | 34,001,789                                                                   | (775,636)                                                        | 464,012 | 196,612,616  |

Note: For the year ended December 31, 2014 and 2013, employee bonuses of \$4,973 and \$3,218 were deducted from the statements of comprehensive income.

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

**CTBC BANK CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
**For the Year Ended December 31, 2014 And 2013**  
**(Expressed In Thousands of New Taiwan Dollars)**

|                                                                                                  | <b>For the year ended December 31</b> |                   |
|--------------------------------------------------------------------------------------------------|---------------------------------------|-------------------|
|                                                                                                  | <b>2014</b>                           | <b>2013</b>       |
| <b>Cash Flows from Operating Activities:</b>                                                     |                                       |                   |
| Net Income Before Tax                                                                            | \$ 37,536,316                         | 21,492,185        |
| <b>Adjustments:</b>                                                                              |                                       |                   |
| Income and expense items with no effect on cash flows                                            |                                       |                   |
| Depreciation expenses                                                                            | 1,091,194                             | 1,060,643         |
| Amortization expenses                                                                            | 499,813                               | 565,308           |
| Provision for bad debt expenses                                                                  | 3,342,271                             | 5,999,304         |
| Net gains on financial assets or liabilities measured at fair value through profit or loss       | (4,835,609)                           | (706,166)         |
| Interest expenses                                                                                | 17,505,449                            | 13,624,343        |
| Interest income                                                                                  | (45,540,893)                          | (38,154,954)      |
| Dividends income                                                                                 | (236,418)                             | (471,463)         |
| Net changes in guarantee reserve                                                                 | (5,645)                               | (7,141)           |
| Net changes in other provisions                                                                  | (64,433)                              | (70,006)          |
| Losses on disposal of foreclosed properties                                                      | 65                                    | 27,494            |
| Proportionate share of gains from subsidiaries, associates or joint ventures under equity method | (3,752,300)                           | (4,120,574)       |
| Losses on disposal and retirement of premises and equipment                                      | 3,533                                 | 31,219            |
| Losses on disposal of intangible assets                                                          | -                                     | 2,598             |
| Gain on disposal of investments                                                                  | -                                     | (11,086)          |
| Gain on reversal of impairment loss on financial assets                                          | (8,355)                               | -                 |
| Impairment loss on non-financial assets                                                          | 30,675                                | 21,722            |
| Gain from a bargain purchase                                                                     | (14,814,154)                          | -                 |
| Other adjustments                                                                                | (85,287)                              | (173,198)         |
| Subtotal of income and expense items with no effect on cash flows                                | (46,870,094)                          | (22,381,957)      |
| <b>Changes in Operating Assets and Liabilities:</b>                                              |                                       |                   |
| Net Changes in Operating Assets:                                                                 |                                       |                   |
| Decrease (increase) in due from Central Bank and call loans to bank                              | 2,048,749                             | (14,277,054)      |
| Increase in financial assets measured at fair value through profit or loss                       | (14,152,442)                          | (178,765)         |
| (Increase) decrease in hedging derivative financial assets                                       | (589,373)                             | 667,841           |
| Increase in receivables                                                                          | (5,319,639)                           | (27,866,833)      |
| Increase in loans                                                                                | (119,128,548)                         | (137,443,313)     |
| (Increase) decrease in available-for-sale financial assets                                       | (44,473,867)                          | 13,224,782        |
| (Increase) decrease in held-to-maturity financial assets                                         | (8,169,184)                           | 9,500,680         |
| (Increase) decrease in other financial assets                                                    | (831,668)                             | 720,487           |
| Net Changes in Operating Assets                                                                  | (190,615,972)                         | (155,652,175)     |
| Net Changes in Operating Liabilities:                                                            |                                       |                   |
| (Decrease) increase in deposits from Central Bank and other banks                                | (4,883,551)                           | 17,917,046        |
| Increase in financial liabilities measured at fair value through profit or loss                  | 26,831,519                            | 2,673,695         |
| Increase in hedging derivative financial liabilities                                             | 661,210                               | 220,153           |
| Increase (decrease) in payables                                                                  | 12,316,008                            | (10,952,313)      |
| Increase in deposits and remittances                                                             | 162,037,733                           | 192,840,006       |
| Decrease in other financial liabilities                                                          | (2,088,226)                           | (7,156,394)       |
| Increase (decrease) in employee benefits provision                                               | 222,797                               | (203,130)         |
| Net Changes in Operating Liabilities                                                             | 195,097,490                           | 195,339,063       |
| Net Changes in Operating Assets and Liabilities                                                  | 4,481,518                             | 39,686,888        |
| Sum of Adjustments                                                                               | (42,388,576)                          | 17,304,931        |
| Cash (Used in) Provided by Operating Activities                                                  | (4,852,260)                           | 38,797,116        |
| Interest received                                                                                | 43,807,563                            | 38,247,791        |
| Dividends received                                                                               | 287,897                               | 530,280           |
| Interest paid                                                                                    | (15,879,603)                          | (13,753,926)      |
| Income tax paid                                                                                  | (3,438,889)                           | (2,797,249)       |
| <b>Net Cash Provided by Operating Activities</b>                                                 | <b>19,924,708</b>                     | <b>61,024,012</b> |

**CTBC BANK CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
**For the Year Ended December 31, 2014 And 2013**  
**(Expressed In Thousands of New Taiwan Dollars)**

|                                                                                                                | <b>For the year ended December 31</b> |                    |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------|--------------------|
|                                                                                                                | <b>2014</b>                           | <b>2013</b>        |
| <b>Cash Flows from Investing Activities:</b>                                                                   |                                       |                    |
| Return of capital from financial assets carried at cost                                                        | \$ 91,997                             | 113,952            |
| Purchase of investment under equity method                                                                     | (15,665,085)                          | -                  |
| Purchase of premises and equipment                                                                             | (8,063,919)                           | (6,708,805)        |
| Disposal of premises and equipment                                                                             | 25,952                                | 4,867              |
| Purchase of intangible assets                                                                                  | (182,350)                             | (264,105)          |
| Disposal of intangible assets                                                                                  | 716                                   | -                  |
| Disposal of foreclosed properties                                                                              | -                                     | 295,269            |
| Decrease in receivables                                                                                        | 514,655                               | 773,591            |
| (Increase) decrease in other assets                                                                            | (12,075,953)                          | 1,934,829          |
| <b>Net Cash Used in Investing Activities</b>                                                                   | <b>(35,353,987)</b>                   | <b>(3,850,402)</b> |
| <b>Cash Flows from Financing Activities:</b>                                                                   |                                       |                    |
| (Decrease) increase in due to Central Bank and other banks                                                     | (1,170,887)                           | 585,571            |
| Issuance of financial debentures                                                                               | 35,000,000                            | 4,947,000          |
| Repayments of financial debentures                                                                             | (3,800,000)                           | (450,000)          |
| (Decrease) increase in securities sold under repurchase agreements                                             | (807,418)                             | 260,355            |
| Increase in financial liabilities at fair value through profit or loss, designated as upon initial recognition | 32,764,694                            | -                  |
| Increase (decrease) in payables                                                                                | 928,291                               | (90,321)           |
| Decrease in other liabilities                                                                                  | (804,370)                             | (1,227,524)        |
| Cash dividends issuance                                                                                        | -                                     | (11,304,952)       |
| Cash capital increase                                                                                          | 15,000,000                            | -                  |
| <b>Net Cash Provided by (Used in) Financing Activities</b>                                                     | <b>77,110,310</b>                     | <b>(7,279,871)</b> |
| <b>Net Increase in Cash and Cash Equivalents</b>                                                               | <b>61,681,031</b>                     | <b>49,893,739</b>  |
| <b>Cash and Cash Equivalents, at the Beginning of the Period</b>                                               | <b>146,040,305</b>                    | <b>96,146,566</b>  |
| <b>Cash and Cash Equivalents, at the End of the Period</b>                                                     | <b>\$ 207,721,336</b>                 | <b>146,040,305</b> |
| <b>Components of cash and cash equivalents:</b>                                                                |                                       |                    |
| Cash and cash equivalents recognized in the balance sheet                                                      | \$ 94,807,281                         | 81,377,414         |
| Due from Central Bank and call loans to bank which meet IAS 7 definition of cash and cash equivalents          | 112,914,055                           | 64,662,891         |
| <b>Cash and Cash Equivalents, at the End of the Period</b>                                                     | <b>\$ 207,721,336</b>                 | <b>146,040,305</b> |

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



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