Union Bank of Taiwan

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Union Bank of Taiwan

We have audited the accompanying balance sheets of Union Bank of Taiwan (the "Bank") as of December 31, 2014 and 2013, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended. 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 the Audit of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Union Bank of Taiwan as of December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended, in conformity with the Criteria Governing the Preparation of Financial Reports by Public Banks and other regulations.

March 18, 2015

<u>*Notice to Readers*</u>

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

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

UNION BANK OF TAIWAN

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

	2014		2013	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	$ 9,476,656	2	$ 7,693,960	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Note 7)	67,260,453	14	70,874,052	16
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 8)	18,373,136	4	9,863,257	2
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 4 and 9)	26,350,581	5	20,230,519	5
RECEIVABLES, NET (Notes 4, 5, 10, 12 and 40)	14,678,252	3	13,742,618	3
CURRENT TAX ASSETS (Notes 4 and 38)	326,786	-	160,660	-
DISCOUNTS AND LOANS, NET (Notes 4, 5, 11, 12 and 40)	257,632,121	54	230,142,592	53
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 4, 5, 13 and 40)	13,699,485	3	8,500,192	2
HELD-TO-MATURITY FINANCIAL ASSETS (Notes 4, 5 and 14)	521,266	-	428,017	-
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 15)	2,616,318	1	2,567,706	1
OTHER FINANCIAL ASSETS, NET (Notes 4, 15, 16 and 41)	56,639,357	12	57,830,216	13
PROPERTY AND EQUIPMENT, NET (Notes 4 and 17)	7,722,206	2	7,630,976	2
INTANGIBLE ASSETS (Note 4)				
Goodwill (Notes 5 and 18)	1,985,307	-	1,985,307	-
Computer software	60,891	-	59,559	-
Total intangible assets	2,046,198	-	2,044,866	-
DEFERRED TAX ASSETS (Notes 4, 5 and 38)	2,245,936	-	2,826,055	1
OTHER ASSETS, NET (Notes 4, 19, 40 and 42)	1,962,732	-	1,925,098	-
TOTAL	$ 481,551,483	100	$ 436,460,784	100
LIABILITIES AND EQUITY				
LIABILITIES				
Due to the Central Bank and other banks (Note 20)	$ 6,164,744	1	$ 4,924,611	1
Financial liabilities at fair value through profit or loss (Notes 4 and 8)	211,084	-	16,006	-
Securities sold under agreements to repurchase (Notes 4 and 21)	31,791,276	7	24,582,657	5
Accounts payable (Note 22)	5,456,071	1	4,168,148	1
Deposits (Notes 23 and 40)	396,410,432	82	365,120,161	84
Bank debentures (Note 24)	7,400,000	2	7,400,000	2
Other financial liabilities (Note 25)	18,928	-	201,858	-
Provisions (Notes 4, 12 and 26)	942,785	-	752,628	-
Deferred tax liabilities (Notes 4, 5 and 38)	699,730	-	556,558	-
Other liabilities (Notes 28, 40 and 42)	418,311	-	314,825	-
Total liabilities	449,513,361	93	408,037,452	93
EQUITY				
Capital stock				
Common stock	24,509,306	5	22,165,251	5
Capital surplus	33,006	-	34,288	-
Retained earnings				
Legal reserve	2,522,768	-	1,685,037	1
Special reserve	558,842	-	914,439	-
Unappropriated earnings	3,045,300	1	2,792,439	1
Total retained earnings	6,126,910	1	5,391,915	2
Other equity	1,368,900	1	831,878	-
Total equity	32,038,122	7	28,423,332	7
TOTAL	$ 481,551,483	100	$ 436,460,784	100

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

UNION BANK OF TAIWAN

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

	2014		2013		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
NET INTEREST (Notes 4, 30 and 40)					
Interest revenues	$ 9,707,194	110	$ 9,271,343	109	5
Interest expenses	3,681,523	42	3,350,022	39	10
Net interest	6,025,671	68	5,921,321	70	2
NET REVENUES OTHER THAN INTEREST					
Commissions and fee revenues, net (Notes 4, 31 and 40)	1,954,099	22	1,664,374	20	17
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4 and 32)	310,739	3	678,127	8	(54)
Realized gain (loss) from available-for-sale financial assets, net (Notes 4 and 33)	147,797	2	(86,181)	(1)	271
Investment gain recognized under the equity method (Note 4)	153,314	2	197,750	2	(22)
Foreign exchange gain (loss), net (Note 4)	205,885	2	(208,378)	(3)	199
Reversal of asset impairments (Notes 4 and 34)	-	-	120,187	1	(100)
Gain on disposal of collaterals assumed, net	-	-	10,353	-	(100)
Securities brokerage fee revenues, net (Note 40)	67,461	1	54,181	1	25
Gain on unquoted equity investments, net	49,990	1	49,025	1	2
Property gain (loss), net	(1,814)	-	2,255	-	(180)
Other noninterest net gains (losses)	(63,627)	(1)	76,142	1	(184)
Total net revenues other than interest	2,823,844	32	2,557,835	30	10
TOTAL NET REVENUES	8,849,515	100	8,479,156	100	4
PROVISIONS (Notes 4 and 12)					
Reversal of allowance for doubtful accounts	(494,806)	(6)	(95,890)	(1)	416

(Continued)

UNION BANK OF TAIWAN

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

	2014 Amount	2014 %	2013 Amount	2013 %	Percentage Increase (Decrease) %
OPERATING EXPENSES					
Personnel expenses (Notes 4 and 35)	$ 2,743,129	31	$ 2,621,626	31	5
Depreciation and amortization (Notes 4 and 36)	203,904	2	208,651	3	(2)
Others (Notes 37 and 40)	2,721,734	31	2,405,987	28	13
Total operating expenses	5,668,767	64	5,236,264	62	8
INCOME BEFORE INCOME TAX	3,675,554	42	3,338,782	39	10
INCOME TAX EXPENSE (Notes 4, 5 and 38)	581,759	7	470,891	5	24
CONSOLIDATED NET INCOME	3,093,795	35	2,867,891	34	8
OTHER COMPREHENSIVE INCOME					
Exchange differences on translating foreign operations	560,226	6	251,127	3	123
Unrealized gain on available-for-sale financial assets	224,145	3	692,783	8	(68)
Share of other comprehensive income of subsidiaries and associates	(87,257)	(1)	13,801	-	(732)
Actuarial loss arising on defined benefit plans (Notes 4 and 27)	(72,868)	(1)	(12,504)	-	483
Income tax on the components of other comprehensive expense (Note 38)	(154,041)	(2)	(258,580)	(3)	(40)
Other comprehensive income for the year, net of income tax	470,205	5	686,627	8	(32)
TOTAL COMPREHENSIVE INCOME	$ 3,564,000	40	$ 3,554,518	42	-
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 39)					
Basic	$ 1.26		$ 1.18		
Diluted	$ 1.26		$ 1.17		

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

UNION BANK OF TAIWAN

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

	Capital Stock (Note 29)				Retained Earnings (Notes 4 and 29)				Other Equity (Notes 4 and 29)			
	Common Stock	Preferred Stock	Total	Share Capital	Legal Reserve	Special Reserve	Unappropri-ated Earnings	Total	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Exchange Differences on Translating Foreign Operations	Total	Total Equity
BALANCE AT JANUARY 1, 2013	$ 20,060,202	$ 204,194	$ 20,264,396	$ 32,413	$ 900,963	$ 608,209	$ 3,064,835	$ 4,574,007	$ 413,490	$ (278,935)	$ 134,555	$ 25,005,371
Special reserve carried with Rule No. 1010012865 issued by the Financial Supervisory Commission	-	-	-	-	-	507,984	(507,984)	-	-	-	-	-
Appropriation of the 2012 earnings												
Legal reserve	-	-	-	-	784,074	-	(784,074)	-	-	-	-	-
Cash dividends on preferred shares	-	-	-	-	-	-	(181,042)	(181,042)	-	-	-	(181,042)
Stock dividends on common shares	1,839,520	-	1,839,520	-	-	-	(1,839,520)	(1,839,520)	-	-	-	-
Stock dividends on preferred shares	18,725	-	18,725	-	-	-	(18,725)	(18,725)	-	-	-	-
Reversal of special reserve	-	-	-	-	-	(201,754)	201,754	-	-	-	-	-
Net income for the for the year ended December 31, 2013	-	-	-	-	-	-	2,867,891	2,867,891	-	-	-	2,867,891
Other comprehensive income for the year ended December 31, 2013	-	-	-	-	-	-	(10,696)	(10,696)	496,017	201,306	697,323	686,627
Total comprehensive income for the year ended December 31, 2013	-	-	-	-	-	-	2,857,195	2,857,195	496,017	201,306	697,323	3,554,518
Conversion of preferred stock	204,194	(204,194)	-	-	-	-	-	-	-	-	-	-
Share-based payment	42,610	-	42,610	1,875	-	-	-	-	-	-	-	44,485
BALANCE AT DECEMBER 31, 2013	22,165,251	-	22,165,251	34,288	1,685,037	914,439	2,792,439	5,391,915	909,507	(77,629)	831,878	28,423,332
Appropriation of the 2013 earnings												
Legal reserve	-	-	-	-	837,731	-	(837,731)	-	-	-	-	-
Cash dividends on preferred shares	-	-	-	-	-	-	(8,962)	(8,962)	-	-	-	(8,962)
Stock dividends on common shares	2,283,021	-	2,283,021	-	-	-	(2,283,021)	(2,283,021)	-	-	-	-
Reversal of special reserve	-	-	-	-	-	(355,597)	355,597	-	-	-	-	-
Net income for the year ended December 31, 2014	-	-	-	-	-	-	3,093,795	3,093,795	-	-	-	3,093,795
Other comprehensive income for the year ended December 31, 2014	-	-	-	-	-	-	(66,817)	(66,817)	120,140	416,882	537,022	470,205
Total comprehensive income for the year ended December 31, 2014	-	-	-	-	-	-	3,026,978	3,026,978	120,140	416,882	537,022	3,564,000
Share-based payment	61,034	-	61,034	(1,282)	-	-	-	-	-	-	-	59,752
BALANCE AT DECEMBER 31, 2014	$ 24,509,306	$ -	$ 24,509,306	$ 33,006	$ 2,522,768	$ 558,842	$ 3,045,300	$ 6,126,910	$ 1,029,647	$ 339,253	$ 1,368,900	$ 32,038,122

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

UNION BANK OF TAIWAN

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

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,675,554	$ 3,338,782
Adjustments for:		
Depreciation expenses	170,911	168,384
Amortization expenses	32,993	40,267
Gain on reversal of allowance for doubtful accounts	(494,806)	(95,890)
Net gain on disposal of financial assets designated as at fair value through profit or loss	(310,739)	(678,127)
Interest expenses	3,681,523	3,350,022
Interest revenues	(9,707,194)	(9,271,343)
Dividend income	(87,464)	(77,149)
Share of profit of subsidiaries and associates	(153,314)	(197,750)
Loss (gain) on disposal of properties	1,814	(2,255)
Gain (loss) on disposal of investments	(110,320)	114,305
Reversal of impairment losses on nonfinancial asset	-	(51,593)
Reversal of impairment loss recognized on financial assets	-	(68,594)
Loss on disposal of distressed debt	65,897	-
Gain on disposal of collaterals	-	(10,353)
Changes in operating assets and liabilities		
Increase in due from the Central Bank and call loans banks	(386,401)	(3,495,138)
Increase in financial assets at fair value through profit or loss	(6,423,256)	(2,433,626)
Decrease (increase) in accounts receivable	(780,117)	512,562
Increase in discounts and loans	(27,256,804)	(28,373,615)
Decrease (increase) in available-for-sale financial assets	(4,864,527)	2,315,443
Increase in other financial assets	(2,231,324)	(3,695,447)
Increase (decrease) in due to the Central Bank and other banks	1,240,133	(190,826)
Increase (decrease) in financial liabilities at fair value through profit or loss	(1,655,522)	298,333
Increase (decrease) in securities sold under repurchase agreements	7,208,619	(3,706,692)
Increase (decrease) in accounts payable	1,328,884	(2,247,667)
Increase in deposits	31,290,271	27,721,025
Decrease in other financial liabilities	(182,930)	(104,534)
Increase (decrease) in provisions for employee benefits	7,440	(26,661)
Cash used in operations	(5,940,679)	(16,868,137)
Interest received	9,700,672	9,330,915
Dividend received	119,996	267,481
Interest paid	(3,662,732)	(3,471,032)
Income tax paid	(178,635)	(88,298)
Net cash generated from (used in) operating activities	38,622	(10,829,071)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in financial assets designated as at fair value through profit or loss	72,367	1,033,116
Acquisition of debt instruments with no active market	(5,686,328)	(29,391,008)

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UNION BANK OF TAIWAN

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

	2014	2013
Return of capital on debt instruments with no active market	$ 9,274,723	$ 24,850,343
Purchase of held-to-maturity financial assets	(360,837)	(205,667)
Return of capital on held-to-maturity financial assets	264,962	614,805
Purchase of financial assets measured at cost	(6,000)	-
Proceeds from disposal of financial assets measured at cost	8,884	-
Return of capital on financial assets carried at cost	-	34,663
Payments for properties	(242,469)	(107,920)
Proceeds of the disposal of properties	95	17,628
Increase in settlement fund	(845)	-
Decrease in settlement fund	-	1,228
Increase in refundable deposits	(74,762)	-
Decrease in refundable deposits	-	163,314
Payments for intangible assets	(31,056)	(2,395)
Proceeds of the disposal of collaterals	-	162,554
Decrease (increase) in other assets	37,973	(29,284)
Net cash generated from (used in) investing activities	3,256,707	(2,858,623)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of the issue bank debentures	-	3,000,000
Repayments of bank debentures	-	(800,000)
Increase (decrease) in guarantee deposits received	6,302	(1,092)
Increase in other liabilities	55,922	10,760
Cash dividends paid	(8,962)	(181,042)
Net cash generated from financing activities	53,262	2,028,626
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	554,167	248,337
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,902,758	(11,410,731)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	82,024,479	93,435,210
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 85,927,237	$ 82,024,479

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UNION BANK OF TAIWAN

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

Reconciliation of the amounts in the statements of cash flows with the equivalent items reported in the balance sheets as of December 31, 2014 and 2013:

	December 31	
	2014	2013
Cash and cash equivalents in balance sheets	$ 9,476,656	$ 7,693,960
Due from the Central Bank and call loans to banks that meet the definition of cash and cash equivalents in IAS 7"Cash Flow Statements"	50,100,000	54,100,000
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	26,350,581	20,230,519
Cash and cash equivalents in statements of cash flows	$ 85,927,237	$ 82,024,479

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

1. GENERAL INFORMATION

The Union Bank of Taiwan (the "Bank") obtained approval from the Ministry of Finance (MOF) to be established on August 1, 1991 and was incorporated on December 31, 1991. It started operations on January 21, 1992.

The Bank engages in activities allowed under the Banking Law, which cover deposits, loans, discounts, remittances, acceptances, issuance of guarantees and letters of credit, short-term bills transactions, investments, foreign exchange transactions, savings, trust, etc.

On the Bank's merger with Chung Shing Bank on March 19, 2005, the Bank took over all of the assets, liabilities and operating units of Chung Shing Bank.

The Bank merged with the Union Bills Finance Corporation (UBF) on August 16, 2010, with the Bank as the survivor entity.

As of December 31, 2012, the Bank's operating units included Banking, Trust, Wealth Management, Security Finance, Bills Finance, International Banking Department of the Head Office, an Offshore Banking Unit (OBU), two overseas representative offices in Hong Kong and Vietnam, and 89 domestic branches.

The operations of the Bank's Trust Department are (1) trust business planning, managing and operating; and (2) custody of nondiscretionary trust funds in domestic and overseas securities and mutual funds. These foregoing operations are regulated under the Banking Law and Trust Law.

The Bank's shares are traded on the Taiwan Stock Exchange.

As of December 31, 2014 and 2013, the Bank had 3,356 and 3,249 employees, respectively.

The Bank's financial statements are presented in New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 18, 2015.

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

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

   Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC on April 3, 2014, stipulated that the Bank should apply the 2013 version of IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") endorsed by the FSC and the related amendments to the Criteria Governing the Preparation of Financial Reports by Public Banks starting January 1, 2015.

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

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

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

1) IFRS 13 "Fair Value Measurement"

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

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

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

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

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

3) Revision to IAS 19 “Employee Benefits”

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

On initial application of the revised IAS 19 in 2015, the changes in cumulative employee benefit costs as of December 31, 2013 resulting from the retrospective application are adjusted to net defined benefit liabilities, deferred tax assets and retained earnings. In addition, in preparing the consolidated financial statements for the year ended December 31, 2015, the Bank would elect not to present 2014 comparative information about the sensitivity of the defined benefit obligation.

The anticipated impact of the initial application of the revised IAS 19 is detailed as follows:

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
Impact on assets, liabilities and equity			
December 31, 2014			
Effect on assets			
Deferred tax assets	$ 2,245,936	$ (478)	$ 2,245,458
Effect on liabilities			
Net defined benefit liabilities	$ 746,506	$ (2,810)	$ 743,696
Effect on equity			
Retained earnings	$ 3,045,300	$ 2,332	$ 3,047,632
January 1, 2014			
Effect on assets			
Deferred tax assets	$ 2,826,055	$ (565)	$ 2,825,490

(Continued)

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
Effect on liabilities			
Net defined benefit liabilities	$ 666,199	$ (3,321)	$ 662,878
Effect on equity			
Retained earnings	$ 2,792,439	$ 2,756	$ 2,795,195
Impact on total comprehensive income for the year ended December 31, 2014			
Employee benefit expenses	$ (31,079)	$ 1,193	$ (29,886)
Income tax expense	5,283	(203)	5,080
Total effect on net profit for the year	(25,796)	990	(24,806)
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plan	(72,868)	(1,703)	(74,571)
Income tax relating to items that will not be reclassified	12,387	289	12,676
Total effect on other comprehensive income for the year, net of income tax	(60,481)	(1,414)	(61,895)
Total effect on total comprehensive income for the year	$ (86,277)	$ (424)	$ (86,701)

(Concluded)

4) Amendments to IFRS 7 “Disclosure - Offsetting Financial Assets and Financial Liabilities”

The amendments to IFRS 7 require disclosure of information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under enforceable master netting arrangements and similar arrangements.

5) Amendments to IAS 32 “Offsetting Financial Assets and Financial Liabilities”

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realization and settlement”.

6) Annual Improvements to IFRSs: 2009-2011 Cycle

Several standards including IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IAS 1 “Presentation of Financial Statements”, IAS 16 “Property, Plant and Equipment”, IAS 32 “Financial Instruments: Presentation” and IAS 34 “Interim Financial Reporting” were amended in this annual improvement.

The amendments to IAS 1 clarify that an entity is required to present a balance sheet as at the beginning of the preceding period when a) it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassifies items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period. The amendments also clarify that related notes are not required to accompany the balance sheet at the beginning of the preceding period.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be recognized in accordance with IAS 16 when they meet the definition of property, plant and equipment and otherwise as inventory.

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 "Income Taxes".

The amendments to IAS 34 clarify that a measure of total liabilities for a reportable segment would be disclosed in interim financial reporting when such amounts are regularly provided to the chief operating decision maker of the Bank and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

The initial application of the amendments to the Criteria Governing the Preparation of Financial Reports by Public Banks and the 2013 IFRSs version in 2015 is expected to have material effect on the consolidated balance sheet as of January 1, 2014. In preparing the consolidated financial statements for the year ended December 31, 2015, the Bank would present the consolidated balance sheet as of January 1, 2014 in accordance of the above amendments to IAS 1 and disclose related information in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", but not required to make disclosures about the line items of the balance sheet as of January 1, 2014.

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

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

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

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

(Concluded)

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

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

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

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

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

1) IFRS 9 “Financial Instruments”

<u>Recognition and measurement of financial assets</u>

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

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

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

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

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

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

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

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

<u>Hedge accounting</u>

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

2) Amendment to IAS 19: Amendment in 2013

The amended IAS 19 states that if contributions from employees or third parties are not linked to service, these contributions affect the remeasurement of the net defined benefit liability (asset). If the contributions are linked solely to service, the employees' service rendered in that period in which they are paid, these contributions may be recognized as a reduction of service cost in the same period. If the contributions depend on the number of years of service, an entity is required to attribute these contributions to service periods as a reduction of service cost.

3) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

In issuing IFRS 13 "Fair Value Measurement", the IASB made consequential amendment to the disclosure requirements in IAS 36 "Impairment of Assets", introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Bank is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

4) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards including IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments” were amended in this annual improvement.

The amended IFRS 2 changes the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Bank or another entity in the same group or the market price of the equity instruments of the Bank or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Bank as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Bank, but also of other entities outside the Bank.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss.

The amended IFRS 8 requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker.

IFRS 13 was amended to clarify that the issuance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Bank is a related party of the Bank. Consequently, the Bank is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

5) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 “Investment Property”, were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required to determine whether the investment property acquired is acquisition of an asset or a business combination.

6) Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.

The amended IAS 16 "Property, Plant and Equipment" requires that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 "Intangible Assets" requires that there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity's use of the intangible asset will expire upon achievement of a revenue threshold); or

b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

An entity should apply the aforementioned amendments prospectively for annual periods beginning on or after the effective date.

7) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2017.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 is effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

8) Annual Improvements to IFRSs: 2012-2014 Cycle

Several standards including IFRS 5 "Non-current assets held for sale and discontinued operations", IFRS 7, IAS 19 and IAS 34 were amended in this annual improvement.

IFRS 5 was amended to clarify that reclassification between non-current assets (or disposal group) "held for sale" and non-current assets "held for distribution to owners" does not constitute a change to a plan of sale or distribution. Therefore, previous accounting treatment is not reversed. The amendment also explains that assets that no longer meet the criteria for "held for distribution to owners" and do not meet the criteria for "held for sale" should be treated in the same way as assets that cease to be classified as held for sale.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. In addition, the amendments clarify that the offsetting disclosures are not explicitly required for all interim periods; however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34 under specific conditions.

9) Amendment to IAS 1 “Disclosure Initiative”

The amendment clarifies that the consolidated financial statements should be prepared for the purpose of disclosing material information. To improve the understandability of its consolidated financial statements, the Bank should disaggregate the disclosure of material items into their different natures or functions, and disaggregate material information from immaterial information.

The amendment further clarifies that the Bank should consider the understandability and comparability of its consolidated financial statements to determine a systematic order in presenting its footnotes.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

When preparing its financial statements, the Bank used the equity method to account for its investment in subsidiaries, associates and jointly controlled entities. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Bank in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for using equity method, share of profit or loss of subsidiaries, associates and joint ventures, share of other comprehensive income of subsidiaries, associates and joint ventures and related equity items, as appropriate, in the financial statements.

Foreign Currencies

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

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Nonmonetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of nonmonetary items are included in profit or loss for the period. If a gain or loss on a nonmonetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting financial statements, the assets and liabilities of the Bank's foreign operations (including those of the subsidiaries, associates and joint ventures operations in other countries or currencies used that are different from that of the Bank) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Bank and noncontrolling interests as appropriate).

Investments Accounted for Using the Equity Method

a. Investments in subsidiaries

Subsidiaries are the entities controlled by the Bank.

Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Bank's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. The Bank also recognizes its share of the change in other equity of the subsidiary.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Bank's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Bank's net investment in the subsidiary), the Bank continues recognizing its share of further losses.

The acquisition cost in excess of the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. The acquisition-date fair value of the net identifiable assets acquired in excess of the acquisition cost is recognized immediately in profit or loss.

When testing for impairment, the cash-generating unit is determined based on the financial statements as a whole by comparing its recoverable amount with its carrying amount. If the recoverable amount of the asset subsequently increases, the reversal of the impairment loss is recognized as a gain, but the increased carrying amount of an asset after a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized on the asset in prior years. An impairment loss recognized for goodwill shall not be reversed in a subsequent period.

When the Bank ceases to have control over a subsidiary, any retained investment is measured at fair value at that date and the difference between the previous carrying amount of the subsidiary attributable to the retained interest and its fair value is included in the determination of the gain or loss. Furthermore, the Bank accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Bank directly disposed of the related assets or liabilities.

Profits and losses from upstream transactions with a subsidiary and sidestream transactions between subsidiaries are recognized in the Bank's financial statements only to the extent of interests in the subsidiary that are not related to the Bank.

b. Investment in Associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the operating and financial policy decision of an entity; it is not control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Bank's share of the associate's profit or loss and other comprehensive income of the associate. The Bank also recognizes its share of changes in the equity interests in an associate.

When the Bank subscribes for additional new shares of the associate at a percentage different from its current ownership percentage, the resulting carrying amount of the investment differs from the amount of the Bank's proportionate interest in the associate. The Bank records this difference as an adjustment to investments, with the corresponding amount charged or credited to capital surplus. If the Bank's ownership interest is reduced due to the additional subscription for the new shares of an associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee directly disposes of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Bank's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Bank has incurred legal or constructive obligations, or made payments, on behalf of that associate.

Any acquisition cost in excess of the Bank's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the acquisition date is recognized as goodwill, which is included in the carrying amount of the investment and is not amortized. Any Bank's share of the net fair value of the identifiable assets and liabilities in excess of the acquisition cost is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Bank discontinues the use of the equity method from the date on which it ceases to have significant influence. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between (a) the sum of the proceeds received and any retained interest and (b) the carrying amount of the investment in the associate at the date significant influence is lost is recognized in profit or loss. The Bank accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Bank transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Bank' financial statements only to the extent of the interests in the associate that are not related to the Bank.

Financial Instruments

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

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

Financial assets

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

a. Measurement category

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

   1) Financial assets at fair value through profit or loss

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

      a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency; or

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

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

      Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.
      Fair value is determined in the manner described in Note 44.

      Investments in equity instruments under financial assets at fair value through profit or loss that do not have a quoted market price in an active market and that have fair value that cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of these unquoted equity instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and are recognized in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss.

2) Held-to-maturity investments

Held-to-maturity investments are nonderivative financial assets with fixed or determinable payments and fixed maturity dates on which the Bank has the positive intent and ability to hold to maturity. In addition, they are not designated as at fair value through profit or loss, are not classified as available for sale, and do not meet the definition of loans and receivables. Foreign corporate bonds and debenture bonds that are above certain credit ratings and on which the Bank has a positive intent and ability to hold to maturity are classified as held-to-maturity investments.

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

3) Available-for-sale financial assets

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

The Bank holds government bonds, corporate bonds, listed stocks, mutual funds, negotiable certificates of deposit and commercial paper in an active market that are classified as trading and available-for-sale financial assets and are stated at fair value at each balance sheet date. Fair value is determined in the manner described in Note 44.

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

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

Available-for-sale equity investments with no quoted prices in an active market and with fair values that cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of these unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are recognized in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

4) Loans and receivables

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

b. Impairment of financial assets

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

Certain categories of financial assets, such as loans, receivables, nonperforming loans and debt investments with no active market, are assessed for impairment collectively even if they are assessed as not impaired individually. Objective evidence of impairment of a portfolio of discounts and loans, receivables and nonperforming loans could include the significant financial difficulty of the debtor, economic or legal reasons relating to the debtor's financial difficulties, a counterparty's compromise on or breach of a contract, and an asset becoming more than three months overdue.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

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

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

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

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

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

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

c. Derecognition of financial assets

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

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

Equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank entity are recognized at the proceeds received, net of direct issue costs.

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

Financial liabilities

a. Subsequent measurement

Except in the following situations, all financial liabilities are measured at amortized cost using the effective interest method, less any impairment:

1) Financial liabilities at fair value through profit or loss

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

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

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency; or

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

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

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the other gains and losses line item. Fair value is determined in the manner described in Note 44.

2) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at fair value and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of the following and in compliance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans:

a) The amount of the obligation under the contract, as determined in accordance with FSC-recognized IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

b) The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the FSC-recognized IAS 18 "Revenue."

b. Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments

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

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

Nonperforming Loans

Under the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans" issued by the authorities, loans and other credits (including the accrued interests) that remain unpaid on their maturity are transferred immediately to nonperforming loans if the transfer is approved by the board of directors.

Nonperforming loans transferred from loans are recognized as discounts and loans, and those transferred from other credits are recognized as other financial assets.

Allowance for Doubtful Accounts and Reserve for Losses on Guarantees

In determining the allowance for credit losses and the reserve for losses on guarantees, the Bank assesses the balances of discounts and loans, receivables, nonperforming loans, and other financial assets as well as guarantees and acceptances for their collectibility and their specific risks or general risks as of the balance sheet date.

Under the regulations issued by the Ministry of Finance (MOF), the Bank evaluates credit balances on the basis of their estimated collectibility.

The MOF regulations also require the grouping of loans into these five classes: Normal, special mention, substandard, with doubtful collectibility and uncollectible; the minimum allowances for doubtful accounts and for losses on guarantees for these loans should be 1%, 2%, 10%, 50% and 100%, respectively, of outstanding credits.

Later, the MOF issued a guideline stating that, within three years from January 1, 2011, the normal loans should have a minimum allowance of 1%, with the allowances for the four non-normal loans remaining the same. The Bank believes it can meet this new allowance requirement within three years from January 1, 2011.

Rule No. 10300329440 issued by FSC, stipulated the minimum the allowance for mortgage and improvement loans should be 1.5% by the end of 2016.

Credits deemed uncollectible may be written off if the write-off is approved by the board of directors. Recoveries of amounts previously written off are credited to the allowance account.

Repurchase and Resell Transactions

Securities purchased under agreement to resell and securities sold under agreements to repurchase are generally treated as collateralized financing transactions. Interest earned on reverse repurchase agreements or interest incurred on repurchase agreements is recognized as interest income or interest expense over the life of each agreement.

Property and Equipment

Property and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss. This cost should be recognized as an asset only if it is probable that future economic benefits associated with the property and equipment item will flow to the Bank and if the cost of the item can be measured reliably.

Freehold land is not depreciated.

Depreciation is recognized as a systematic allocation of the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for prospectively.

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

Goodwill

Goodwill (part of intangible assets) from business combination is recorded at acquisition cost and subsequently measured at cost less accumulated impairment.

For impairment test purposes, goodwill is allocated to each cash-generating unit (CGU) that is expected to benefit from the synergy of a business combination.

In testing assets for impairment, the Bank compares the carrying amounts of CGUS with allocated goodwill with their recoverable amounts on a yearly basis (or when impairment indicators exist). Goodwill arising in a business combination should be tested for impairment during the year in which goodwill is acquired. When the recoverable amount of a CGU is below the carrying amount, an impairment loss should be recognized to reduce first the carrying amount of goodwill of the CGU and then the carrying amounts of other assets of the CGU proportionately. Any impairment loss should be directly recognized as loss in the current period, and subsequent reversal of impairment loss is not allowed.

On CGU disposal, the amount attributable to goodwill is included in the CGU carrying amount to determine the gain or loss on disposal.

Intangible Assets

Separate acquisition

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis. At year-end, the Bank examines its estimates of the asset useful lives, residual values and amortization method with the effect of any changes in estimate accounted for on a prospective basis. Unless the Bank expects to dispose of an intangible asset before the end of its useful life, the residual value of an intangible asset with limited useful life is estimated to be zero.

Derecognition

Gains or losses recognized on derecognition of an intangible asset are the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period in which the asset is derecognized.

Foreclosed Collaterals

Collaterals assumed (included in other assets) are recorded at cost, which includes the assumed prices and any necessary repairs to make the collaterals saleable, and evaluated at the lower of cost or net realizable value as of the balance sheet date.

Impairment of Tangible and Intangible Assets (Excluded Goodwill)

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a CGU is identified as having a carrying amount that includes assets that can be allocated on a reasonable and consistent basis to the CGU, corporate assets are also allocated to this CGU; otherwise, a portion of the carrying amounts of the corporate assets is allocated to the smallest group of cash-generating units to which a reasonable and consistent allocation of carrying amounts of the corporate assets can be made.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

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

Leasing

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

a. Bank as lessor

   Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern of the lessee's benefit from the use of the leased asset. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term. Contingent rents arising under operating leases are recognized as income in the period in which they are incurred.

   Lease incentives offered in the operating lease are recognized as an asset. The aggregate cost of incentives is recognized as a reduction of rental income on a straight-line basis over the lease term.

b. Bank as lessee

   Lease payments under an operating lease are expensed on a straight-line basis over the lease period. Under operating lease, contingent rentals are recognized as expenses at current period.

   Lease incentives received under operating leases are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

Provisions

Provisions, including those arising from contractual obligation specified in service concession arrangement to maintain or restore infrastructure before it is handed over to the grantor, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

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

Retirement Benefit Costs

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

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

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

Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed annually. Interim period income tax expense is calculated by applying to an interim period's pretax income the tax rate that would be applicable to expected total annual earnings.

a. Current tax

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

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Deferred tax assets and liabilities are measured at the amounts expected to be paid to (recovered from) taxation authorities, using the rates or laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets should reflect the tax consequences of how the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the period

For transactions recognized in profit or loss, current and deferred taxes are also recognized in profit or loss; for transactions recognized outside profit or loss, i.e., in other comprehensive income or directly in equity, the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Interest Revenue and Service Fees

Interest revenue on loans is recorded by the accrual method. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on these loans/credits is recognized upon collection. Under a Ministry of Finance regulation, the interest revenue on credits covered by agreements that extend their repayment periods is recorded as deferred revenue and recognized as revenue upon collection

Revenue from brokerage is recognized when the earnings process has been completed.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Held-to-maturity financial assets

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

b. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units (CGUs) to which goodwill has been allocated. The calculation of the value in use requires management to estimate a CGU's future cash flows and a suitable discount rate in order to calculate the CGU's net present value. When the actual future cash flows are less than expected, a material impairment loss may arise.

c. Estimated impairment of loans and receivables

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

d. Fair value of financial instruments

As described in Note 44, Bank management uses its judgment in selecting an appropriate valuation technique for financial instruments with no quoted market prices in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are based on quoted market rates adjusted for specific features of the instruments. Other financial instruments are valued using a discounted cash flow analysis, which includes assumptions based on quoted market prices or rates (if available). The measurement of the fair values of unlisted equity investments includes assumptions not based on observable market prices or rates. Note 44 provides information on the key assumptions used in the determination of the fair values of financial instruments. Bank management believes that the chosen valuation techniques and assumption used are appropriate to the determination of the fair value of financial instruments.

e. Employee benefits

For defined benefit retirement plans, the cost of providing benefits is determined using the project unit credit method, with actuarial valuations being carried out at the end of each reporting period. The use of estimations of the discount rate, staff turnover and long-term average rate of salary in actuarial valuations as well as changes in market and economic conditions may result in these estimations differing from the actual costs and amounts of obligations.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2014	2013
Cash on hand	$ 5,238,017	$ 5,078,569
Checks for clearing	2,885,352	1,661,151
Due from banks	1,353,287	954,240
	$ 9,476,656	$ 7,693,960

7. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2014	2013
Deposit reserve - checking account	$ 6,913,974	$ 7,083,159
Required deposit reserve	10,198,902	9,645,968
Deposit reserve - foreign-currency deposits	47,577	44,925
Deposit account in Central Bank	50,100,000	54,100,000
	$ 67,260,453	$ 70,874,052

Under a directive issued by the Central Bank of the ROC, the Bank determines monthly the New Taiwan dollar (NTD)-denominated deposit reserves at prescribed rates based on the average balances of customers' NTD-denominated deposits, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at rates prescribed for balances of foreign-currency deposits. These reserves may be withdrawn anytime and are noninterest earning.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2014	2013
Financial assets held for trading		
Commercial paper	$ 15,797,263	$ 7,566,717
Government bonds	154,538	205,635
Quoted stocks	131,750	157,846
	16,083,551	7,930,198

(Continued)

	December 31	
	2014	2013
Derivative instrument		
Forward exchange contracts	$ 345,786	$ 58,969
Currency swap contracts	16,573	13,896
Option contracts	104,410	5,848
	466,769	78,713
	16,550,320	8,008,911
Financial assets designated as at fair value through profit or loss		
Corporate bonds	1,362,869	1,854,346
Principal guaranteed notes	459,947	-
	1,822,816	1,854,346
	$ 18,373,136	$ 9,863,257
Financial liabilities held for trading		
Derivative instrument		
Forward exchange contracts	$ 102,298	$ 9,113
Option contracts	104,511	5,848
Currency swap contracts	4,275	1,045
	$ 211,084	$ 16,006

(Concluded)

The Bank engaged in derivative transactions mainly to accommodate customers' needs and manage its exposure positions. The financial risk management objective of the Bank was to minimize risks due to changes in fair value or cash flows.

The contract amounts (notional amounts) of the derivative transactions for accommodating customers' needs and managing its exposure positions as of December 31, 2014 and 2013 were as follows:

	December 31	
	2014	2013
Currency swap contracts	$ 17,473,017	$ 11,816,654
Forward exchange contracts	13,973,014	3,439,655
Option contracts		
Buy	5,199,453	1,789,879
Sell	5,199,453	1,789,879

As of December 31, 2014 and 2013, financial instruments at fair value through profit and loss in the amount of $10,329,832 thousand and $6,206,915 thousand were under agreement to repurchase agreements.

9. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

	December 31	
	2014	2013
Commercial paper	$ 13,402,990	$ 10,811,209
Government bonds	330,016	3,200,000
Corporate bonds	12,617,575	6,219,310
	$ 26,350,581	$ 20,230,519
Date of the resell agreement	2015.01-2015.02	2014.01-2014.02
Amount of the resell	$ 26,351,543	$ 20,239,311

The securities purchased under resell agreements had not been sold under repurchase agreements.

10. RECEIVABLES, NET

	December 31	
	2014	2013
Notes and accounts receivable	$ 12,801,378	$ 12,129,194
Interbank clearing fund receivable	800,272	300,707
Interest receivable	604,832	557,048
Investment receivable	179,098	269,857
Acceptances receivable	109,593	122,805
Settlement price	76,998	39,380
Collections receivable	56,715	94,689
Asset-backed commercial paper	-	362,694
Others	186,784	142,488
	14,815,670	14,018,862
Less: Allowance for doubtful accounts	137,418	276,244
	$ 14,678,252	$ 13,742,618

Please refer to Note 45 for the impairment loss analysis of receivables.

The Bank has accrued an allowance for doubtful accounts on receivables. Please refer to Note 12 for the movements of allowance for doubtful accounts.

11. DISCOUNTS AND LOANS, NET

		December 31	
		2014	2013
Discounts and overdraft		$ 731,098	$ 73,884
Accounts receivable - financing		70,360	89,460
Loans			
Short-term	- unsecured	41,552,230	30,851,252
	- secured	47,417,513	41,860,116
Medium-term	- unsecured	14,901,112	10,682,146
	- secured	40,092,743	35,332,126

(Continued)

	December 31	
	2014	2013
Long-term - unsecured	$ 4,296,467	$ 5,025,448
- secured	110,906,045	108,049,889
Import and export negotiations	93,307	106,955
Overdue loans	138,360	595,752
	260,199,235	232,667,028
Less: Allowance for doubtful accounts	2,567,114	2,524,436
	$ 257,632,121	$ 230,142,592

(Concluded)

As of December 31, 2014 and 2013, the balances of nonaccrual loans were $138,360 thousand and $595,752 thousand, respectively. The unrecognized interest revenues on nonperforming loans were $3,719 thousand in 2014 and $17,453 thousand in 2013.

In 2014 and 2013, the Bank wrote off certain credits after completing the required legal procedures.

Please refer to Note 45 for impairment loss analysis of discounts and loans. The Bank had set up an allowance for doubtful accounts on discounts and loans. Please refer to Note 12 for the movements in the allowance for doubtful accounts.

12. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The movements in the allowance for doubtful accounts and reserve for losses on guarantees liabilities for the years ended December 31, 2014 and 2013 are summarized as follows:

	Year Ended December 31, 2014			
	Receivables	Discounts and Loans	Reserve for Losses on Guarantees	Total
Balance at January 1, 2014	$ 276,244	$ 2,524,436	$ 85,000	$ 2,885,680
Allowance (reversal of allowance) for doubtful accounts	(281,184)	(298,622)	85,000	(494,806)
Write-offs	(287,829)	(86,396)	-	(374,225)
Recovery of written-off credits	385,187	466,996	-	852,183
Reclassification	45,000	(45,000)	-	-
Effects of exchange rate changes	-	5,700	-	5,700
Balance at December 31, 2014	$ 137,418	$ 2,567,114	$ 170,000	$ 2,874,532

	Year Ended December 31, 2013			
	Receivables	Discounts and Loans	Reserve for Losses on Guarantees	Total
Balance at January 1, 2013	$ 172,094	$ 2,225,915	$ 114,000	$ 2,512,009
Allowance (reversal of allowance) for doubtful accounts	(130,351)	24,461	10,000	(95,890)
Write-offs	(196,152)	(313,480)	-	(509,632)

(Continued)

	Year Ended December 31, 2013			
	Receivables	Discounts and Loans	Reserve for Losses on Guarantees	Total
Recovery of written-off credits	$ 431,653	$ 546,951	$ -	$ 978,604
Reclassification	(1,000)	40,000	(39,000)	-
Effects of exchange rate changes	-	589	-	589
Balance at December 31, 2013	$ 276,244	$ 2,524,436	$ 85,000	$ 2,885,680

(Concluded)

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2014	2013
Corporate bonds	$ 7,203,711	$ 3,736,164
Mutual funds	2,569,496	1,413,583
Overseas quoted stocks	1,991,358	1,572,591
Domestic quoted stocks	1,057,344	435,306
Government bonds	877,576	1,126,450
Negotiable certificates of deposit	-	216,098
	$ 13,699,485	$ 8,500,192

The available-for-sale financial assets amounting to $2,835,067 thousand and $2,824,240 thousand as of December 31, 2014 and 2013, respectively, had been sold under repurchase agreements.

14. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2014	2013
Government bonds	$ 493,990	$ 289,779
Asset-based securities	27,276	39,556
Negotiable certificates of deposit	-	98,682
	$ 521,266	$ 428,017

The held-to-maturity investments had not been sold under repurchase agreements.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET

	December 31	
	2014	2013
Investments in subsidiaries	$ 2,562,135	$ 2,513,412
Investments in associates	54,183	54,294
	$ 2,616,318	$ 2,567,706

a. Investments in subsidiaries

	December 31	
	2014	2013
Union Finance and Leasing International Corporation (UFLIC)	$ 2,294,342	$ 2,255,382
Union Securities Investment Trust Corporation (USITC)	144,819	138,406
Union Finance International (H.K.) Limited	81,269	79,679
Union Insurance Broker Company (UIB)	25,237	27,037
Union Information Technology Corporation (UIT)	16,468	12,908
	$ 2,562,135	$ 2,513,412

At the end of the reporting period, the proportion of ownership and voting rights in subsidiaries held by the Bank were as follows:

	December 31	
	2014	2013
Union Finance and Leasing International Corporation (UFLIC)	100.00%	100.00%
Union Securities Investment Trust Corporation (USITC)	35.00%	35.00%
Union Finance International (H.K.) Limited	99.99%	99.99%
Union Insurance Broker Company (UIB)	100.00%	100.00%
Union Information Technology Corporation (UIT)	99.99%	99.99%

The Bank's share of profit and other comprehensive income of subsidiaries for the years ended December 31, 2014 and 2013 was based on the subsidiaries' audited financial statements for the same reporting periods as those of the Bank.

b. Investment in as associates

	December 31	
	2014	2013
Union Real-Estate Management Corporation	$ 54,183	$ 54,294
I Pass Corporation	-	-
	$ 54,183	$ 54,294

Before the end of 2013, the Bank prepaid an investment of $130,000 thousand in I Pass Corporation (part of other financial assets, net). The investee was established on January 29, 2014. The Bank ceased to have significant influence on the investee when it did not subscribe for the new ordinary shares issued by the investee for cash. The Bank's percentage of ownership thus decreased from 24.62% to 17.52%, and the Bank's remaining interest in the investee was recognized under financial assets carried at cost.

At the end of the reporting period, the proportion of ownership and voting rights in associates held by the Bank were as follows:

	December 31	
	2014	2013
Union Finance and Leasing International Corporation (UFLIC)	40%	40%

The summarized financial information in respect of the Bank's associates was set out below:

	December 31	
	2014	2013
Total assets	$ 237,775	$ 237,875
Total liabilities	$ 102,319	$ 102,140

	Year Ended December 31	
	2014	2013
Revenue	$ -	$ -
Loss for the year	$ (278)	$ (491)

The Bank's share of the associate's profit and other comprehensive income for 2014 and 2013 was based on the associate's audited financial statements for the same reporting periods as those of the Bank.

16. OTHER FINANCIAL ASSETS, NET

	December 31	
	2014	2013
Debt instruments with no active markets	$ 45,121,992	$ 48,516,710
Pledged assets (Note 41)	8,357,344	8,769,791
Due from banks - certificate of deposit	2,644,570	-
Financial assets carried at cost, net	515,451	413,715
Prepayments for shares	-	130,000
	$ 56,639,357	$ 57,830,216

a. Debt instruments with no active markets

As of December 31, 2014 and 2013, debt instruments with no active markets and amounting to $27,263,845 thousand and $24,189,473 thousand, respectively, were under repurchase agreements.

b. Financial assets carried at cost, net

	December 31	
	2014	2013
Unquoted stocks		
Financial Information Service Company	$ 118,782	$ 118,782
I Pass Corporation (Note 15)	123,320	-
Taiwan Asset Management Corporation	75,000	75,000
Taiwan Future Exchange Corporation	71,250	71,250
Taiwan Financial Asset Service Corporation	50,000	50,000
Other	77,099	98,683
	$ 515,451	$ 413,715

Financial assets carried at cost were unlisted common stocks with no quoted market prices in an active market and with fair values that could not be reliably measured. Thus, these assets were measured at cost less accumulated impairment.

c. Due from banks - certificate of deposit

The amount of due from banks - certificate of deposit can not be cancelled or used.

17. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Machinery and Computer Equipment	Transportation Equipment	Lease Improvements	Prepayments for Equipment	Total
Cost							
Balance at January 1, 2013	$ 3,436,297	$ 5,041,069	$ 1,337,753	$ 264,359	$ 371,165	$ -	$ 10,450,643
Additions	-	11,332	38,835	5,676	35,941	16,136	107,920
Disposals	(14,590)	-	(46,134)	(6,945)	-	-	(67,669)
Reclassification	-	-	-	-	-	(6,189)	(6,189)
Balance at December 31, 2013	3,421,707	5,052,401	1,330,454	263,090	407,106	9,947	10,484,705
Accumulated depreciation							
Balance at January 1, 2013	-	953,995	1,236,472	235,678	311,496	-	2,737,641
Depreciation	-	108,815	29,060	6,979	23,530	-	168,384
Disposals	-	-	(45,405)	(6,891)	-	-	(52,296)
Balance at December 31, 2013	-	1,062,810	1,220,127	235,766	335,026	-	2,853,729
Balance at January 1, 2013	$ 3,436,297	$ 4,087,074	$ 101,281	$ 28,681	$ 59,669	$ -	$ 7,713,002
Balance at December 31, 2013, net	$ 3,421,707	$ 3,989,591	$ 110,327	$ 27,324	$ 72,080	$ 9,947	$ 7,630,976

	Land	Buildings	Machinery and Computer Equipment	Transportation Equipment	Lease Improvements	Prepayments for Equipment	Total
Cost							
Balance at January 1, 2014	$ 3,421,707	$ 5,052,401	$ 1,330,454	$ 263,090	$ 407,106	$ 9,947	$ 10,484,705
Additions	-	20,960	47,377	9,969	60,194	128,819	267,319
Disposals	-	-	(111,199)	(4,786)	(312)	-	(116,297)
Reclassification	-	174	1,830	1,619	4,487	(11,379)	(3,269)
Balance at December 31, 2014	3,421,707	5,073,535	1,268,462	269,892	471,475	127,387	10,632,458
Accumulated depreciation							
Balance at January 1, 2014	-	1,062,810	1,220,127	235,766	335,026	-	2,853,729
Depreciation	-	111,194	25,393	5,994	28,330	-	170,911
Disposals	-	-	(109,735)	(4,616)	(37)	-	(114,388)
Balance at December 31, 2014	-	1,174,004	1,135,785	237,144	363,319	-	2,910,252
Balance at December 31, 2014, net	$ 3,421,707	$ 3,899,531	$ 132,677	$ 32,748	$ 108,156	$ 127,387	$ 7,722,206

The above items of property and equipment were depreciated on a straight-line basis over the useful lives of the assets, estimated as follows:

Buildings	
Main buildings	50-55 years
Equipment installed in buildings	5 years
Machinery and computer equipment	3-5 years
Transportation equipment	3-5 years
Lease improvements	5 years

18. GOODWILL

The Bank acquired Chung Shing Bank (“Chung Shing”) on March 19, 2005 and recognized goodwill amounting to $3,309,000 thousand. The goodwill amortization period was five years, and the amortization expense in 2005 was $551,500 thousand. However, the amortization of goodwill became no longer required from January 1, 2006.

The Bank merged with Union Bills Finance Corporation on August 16, 2010, with the Bank as the survivor entity, and recognized goodwill amounting to $130,498 thousand.

For the impairment test on Chung Shing, the Bank treated individual business units as cash-generating units (CGUs). Goodwill resulting from the merger was allocated to the relevant CGUs. The recoverable amount was determined by the value in use of each CGU and was calculated at the present values of the cash flow forecast for the next five years based on the going-concern assumption. Future cash flows were estimated on the basis of Chung Shing's present operations and will be adjusted depending on the business outlook and economic trends.

As of December 31, 2014 and 2013, the balances of accumulated impairment both were $902,691 thousand.

19. OTHER ASSETS, NET

	December 31	
	2014	2013
Refundable deposits	$ 1,817,016	$ 1,741,409
Prepaid expenses	127,934	152,047
Others	17,782	31,642
	$ 1,962,732	$ 1,925,098

20. CALL LOANS AND DUE TO OTHER BANKS

	December 31	
	2014	2013
Due to Chunghwa Post Co., Ltd.	$ 4,054,959	$ 4,817,779
Call loans from banks	2,000,000	-
Overdraft	68,647	46,828
Due to the Central Bank and other banks	41,138	60,004
	$ 6,164,744	$ 4,924,611

21. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	December 31	
	2014	2013
Asset-based securities	$ 18,396,440	$ 15,274,500
Commercial paper	10,186,820	6,006,325
Government bonds	1,129,932	1,456,239
Corporate bonds	2,078,084	1,845,593
	$ 31,791,276	$ 24,582,657
Date of repurchase agreement	2015.01-2015.03	2014.01-2014.06
Amount of repurchase agreement	$ 31,819,568	$ 24,604,370

22. PAYABLES

	December 31 2014	December 31 2013
Notes and checks in clearing	$ 2,885,352	$ 1,661,151
Accrued expenses	778,231	668,552
Interest payable	610,445	591,654
Investments payable	240,279	247,231
Collections payable	172,890	164,067
Bank acceptances payable	110,363	129,230
Tax taxable	100,778	47,734
Provision for payment to the Bank's check	65,852	63,606
Accounts payable on wire transfers received	58,293	53,448
Dishonored accounts payable	43,917	43,852
Others	389,671	497,623
	$ 5,456,071	$ 4,168,148

23. DEPOSITS AND REMITTANCES

	December 31 2014	December 31 2013
Checking deposits	$ 4,794,920	$ 4,347,055
Demand deposits	56,397,374	52,487,844
Savings deposits	263,634,990	244,228,982
Time deposits	70,787,329	63,681,298
Negotiable certificates of deposit	754,500	314,300
Inward and outward remittances	41,319	60,682
	$ 396,410,432	$ 365,120,161

24. BANK DEBENTURES

	December 31 2014	December 31 2013
First issue of subordinated bank debentures in 2009; fixed 2.95%; maturity: June 2016	$ 900,000	$ 900,000
First issue of subordinated bank debentures in 2011; fixed 2.78%; maturity: June 2018	2,000,000	2,000,000
First issue of subordinated bank debentures in 2012; fixed 2.32%; maturity: March 2019	1,500,000	1,500,000
First issue of subordinated bank debentures in 2013; fixed 2.10%; maturity: December 2020	3,000,000	3,000,000
	$ 7,400,000	$ 7,400,000

25. OTHER FINANCIAL LIABILITIES

	December 31	
	2014	2013
Principals of structured products	$ 2,959	$ 166,839
Funds obtained from the government - intended for specific types of loans	15,969	35,019
	$ 18,928	$ 201,858

26. PROVISIONS

	December 31	
	2014	2013
Provisions for employee benefits	$ 747,935	$ 667,628
Reserve for losses on guarantees	170,000	85,000
Others	24,850	-
	$ 942,785	$ 752,628

27. RETIREMENT BENEFITS PLANS

a. Defined contribution plans

The Bank adopted a pension plan under the Labor Pension Act (LPA), a state-managed defined contribution plan. Under LPA, the Bank makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The total expenses recognized in profit or loss for 2014 and 2013 of $101,999 thousand and $93,482 thousand, respectively, were contributions payable to these plans by the Bank at rates specified in the pension plan rules.

b. Defined benefit plans

The Bank adopted the defined benefit plan under the Labor Standards Law, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement.

The Bank contributes amounts equal to a certain percentage of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan or in the Bank's Taipei branch in the committee's name.

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is under discretionary management by the Bureau of Labor Funds under the Ministry of Labor. In addition, based on the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, the return generated by the employees' pension contributions should not be below the interest rate for a two-year time deposit with local banks.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on December 31, 2014 by actuaries. For 2014 and 2013, the Bank recognized employee benefit expenses of $31,079 thousand and $27,373 thousand, respectively, calculated using the actuarially determined pension cost rate as of December 31, 2014 and 2013, respectively.

The principal assumptions used in the purposes of the actuarial valuations were as follows:

	Valuation at December 31	
	2014	2013
Discount rate	1.75%	1.75%
Expected rate return on plan assets	1.50%	1.50%
Future salary increase rate	3.00%	3.00%

The assessment of the overall expected rate of return was based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligation, taking into consideration how the plan assets are invested and the impact of the related minimum return.

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

	For the Year Ended December 31	
	2014	2013
Current service cost	$ 18,711	$ 19,744
Interest cost	23,101	19,418
Expected return on plan assets	(10,222)	(11,278)
Past service cost	(511)	(511)
	$ 31,079	$ 27,373

Actuarial gains and losses recognized in other comprehensive income were $72,868 thousand for 2014 and $12,504 thousand for 2013. The cumulative amount of actuarial gains and losses recognized in other comprehensive income as of December 31, 2014 and 2013 were $171,231 thousand and $98,363 thousand, respectively.

The balance sheets included the following amounts of the Bank's obligations on its defined benefit plans:

	December 31	
	2014	2013
Present value of the funded defined benefit obligation	$ 1,435,055	$ 1,325,371
Fair value of plan assets	(691,360)	(662,494)
Deficit	743,695	662,877
Past service cost not yet recognized	2,811	3,322
Net liability on the defined benefit obligation (included in provisions for employee benefits)	$ 746,506	$ 666,199

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

	For the Year Ended December 31	
	2014	2013
Opening defined benefit obligation	$ 1,325,371	$ 1,300,424
Current service cost	18,711	19,744
Interest cost	23,101	19,418
Actuarial losses	75,257	9,968
Benefits paid	(7,385)	(24,183)
Closing defined benefit obligation	$ 1,435,055	$ 1,325,371

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

	For the Year Ended December 31	
	2014	2013
Opening fair value of plan assets	$ 662,494	$ 623,900
Expected return on plan assets	10,222	11,278
Actuarial gains	2,389	(2,536)
Contributions from the employer	23,640	54,035
Benefits paid	(7,385)	(24,183)
Closing fair value of plan assets	$ 691,360	$ 662,494

The major categories of plan assets at the end of the reporting period for each category were as follows:

	December 31	
	2014	2013
Cash	19.12%	22.86%
Short-term bills	1.98%	4.10%
Bonds	11.92%	9.37%
Fix-income instruments	14.46%	18.11%
Equity securities	49.69%	44.77%
Others	2.83%	0.79%
	100.00%	100.00%

The Bank chose to disclose the history of experience adjustments as the amounts determined for each accounting period prospectively from the date of transition to IFRSs:

	December 31	
	2014	2013
Present value of defined benefit obligation	$ 1,435,055	$ 1,325,371
Fair value of plan assets	$ 691,360	$ 662,494
Deficit	$ 743,695	$ 662,877
Experience adjustments on plan liabilities	$ (75,257)	$ (9,968)
Experience adjustments on plan assets	$ 2,389	$ (2,536)

The Bank expects to make a contribution of $35,528 thousand to the defined benefit plan during the annual period beginning after December 31, 2014.

28. OTHER LIABILITIES

	December 31	
	2014	2013
Advance receipts	$ 272,494	$ 185,498
Guarantee deposits received	97,783	91,481
Others	48,034	37,846
	$ 418,311	$ 314,825

29. EQUITY

a. Capital stock

Common stock

	December 31	
	2014	2013
Number of shares authorized (in thousands)	3,000,000	3,000,000
Amount of shares authorized	$ 30,000,000	$ 30,000,000
Number of shares issued and fully paid (in thousands)	2,450,930	2,216,525
Amount of shares issued	$ 24,509,306	$ 22,165,251

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

Preferred shares

In their meeting on June 15, 2007, the stockholders resolved to raise publicly or privately the Bank's cash capital by $8,000,000 thousand through a one-time or a serial share issuance depending on the market situation. On September 26, 2007, the Bank privately issued 400,000 thousand preferred shares at NT$10.00 par value and 6% dividend rate.

Under the Bank's Articles of Incorporation, after the Bank appropriates the legal and special reserves from its net income (less any deficit), the Bank should use part of the remainder as dividends to the preferred stockholders. In their meeting on June 13, 2008, the Bank's stockholders passed a resolution to amend the Articles of Incorporation. Based on this amendment, the issuance of preferred dividends will no longer be whenever the Bank makes profits and instead will be made only under common stockholders' resolutions approving this issuance. The preferred stockholders can participate in the distribution of the remaining earnings at the ratio of one preferred share for one common share after earnings distribution to the common stockholders but cannot participate in the distribution of capital surplus transferred to common stock. A preferred share can be converted into one common share a year after the issuance date. The Bank, upon getting approval from the Banking Bureau, can call back some or all the outstanding preferred shares after six years from the issuance date at the price of the issuance amount plus unpaid accumulated dividends.

On December 19, 2012 and August 23, 2013, the board of directors of the Bank approved the conversion of 282,089 thousand shares and 20,419 thousand shares, respectively, of preferred private-placement shares into private-placement common stock. The conversion amounts were $2,820,894 thousand and $204,194 thousand, with the record dates for conversion on December 31, 2012 and September 25, 2013, respectively. After the conversion, there was no preferred stock.

b. Capital surplus

	December 31	
	2014	2013
Arising from issuance of common shares	$ 593	$ 1,875
Treasury stock transactions	32,413	32,413
	$ 33,006	$ 34,288

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Bank has no deficit, this capital surplus may be distributed in cash or mar be capitalized within a certain percentage of the Bank's paid-in capital once a year.

The capital surplus from long-term investments, employee stock options and conversion options may not be used for any purpose.

c. Legal reserve

Legal reserve should be appropriated until it equals the Bank's paid-in-capital. Legal reserve may be used to offset deficit. If the Bank has no deficit and the legal reserve has exceeded 25% of its paid-in capital, the excess may be transferred to capital or distributed in cash. In addition, based on the Banking Act, if the legal reserve is less than the Bank's paid-in capital, the amount that may be distributed in cash should not exceed 15% of the Bank's paid-in-capital.

d. Special reserve

Under Rule No. 100116 and Rule No. 0950000507 issued by the Financial Supervisory Commission (FSC), an amount equal to the net debit balance of certain stockholders' equity accounts (including unrealized revaluation increment, unrealized gain or loss on financial instruments, net loss not recognized as pension cost, cumulative translation adjustments) shall be transferred from unappropriated earnings to a special reserve before any appropriation of earnings generated before January 1, 2012 shall be made. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Under Rule No. 1010012865 issued by the FSC on April 6, 2012 and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs," on the first-time adoption of IFRSs, a company should appropriate as special reserve an amount that is the same as the sum of unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings as a result of the Bank's use of exemptions under IFRS 1 "First-time Adoption of International Financial Reporting Standards." However, at the date of transition to IFRSs, if the increase in retained earnings that resulted from all IFRSs adjustments is not sufficient for this appropriation, only the increase in retained earnings that resulted from all IFRSs adjustments will be appropriated to special reserve. This special reserve may be reversed to retained earnings in proportion to the usage, disposal or reclassification of the related assets and thereafter distributed. The special reserve appropriated on the first-time adoption of IFRSs may be used to offset deficits in subsequent years. No appropriation of earnings should be made until any shortage of this special reserve is appropriated in subsequent years if the Bank has earnings and the original need to appropriate a special reserve is not eliminated.

The above special reserve may be used to offset a deficit; if the reserve has reached at least 50% of the paid-in capital, half of this special reserve may be capitalized.

e. Retained earnings and dividend policy

The Bank's Articles of Incorporation provide that annual net income less any prior years' deficit should be appropriated in the following order:

1) 30% as legal reserve;

2) Special reserve, as deemed proper;

3) Together with prior year's unappropriated earnings: Dividends;

4) The remainder:

   a) Retained earnings, as deemed proper;

   b) Employees' bonus of at least 10% (excluding prior year's unappropriated earnings);

   c) The remainder: 0.5% as remuneration to directors and supervisors (excluding prior year's unappropriated earnings) and bonus to stockholders as approved by the stockholders.

These appropriations should be resolved by the stockholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

The board of directors decides the appropriation and distribution of cash and stock dividends, taking into account the Bank's overall financial and economic condition, future profitability and capital expenditure requirements. In principle, when the Bank of International Settlement ratio is lower than the ratio approved by the authorities plus 1%, primarily stock dividends will be declared. If the legal reserve has not reached the Bank's paid-in capital, cash dividends are limited to 15% of the Bank's paid-in capital. The plan on employees' bonus and remuneration to directors and supervisors is proposed by the board of directors.

For 2014 and 2013, the estimates of the bonus to employees were $69,510 thousand and $66,865 thousand, respectively, and the remunerations to directors and supervisors were $3,475 thousand and $3,343 thousand, respectively. The bonus to employees and remuneration to directors and supervisors were 10% and 0.5%, respectively, of net income (net of the bonus and remuneration) minus legal reserve, special reserve, and dividends. Material differences between these estimates and the amounts proposed by the Board of Directors in the following year are adjusted in the year of the board's proposal. If the actual amounts subsequently approved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

The appropriations from the earnings of 2013 and 2012 were approved in stockholders' meetings on June 6, 2014 and June 14, 2013, respectively. The appropriations and dividends per share were as follows:

	2013		2012	
	Appropriation of Earnings	**Dividend Per Share (NT$)**	**Appropriation of Earnings**	**Dividend Per Share (NT$)**
Legal reserve	$ 837,731		$ 784,074	
Special reserve	(355,597)		(201,754)	
Stock dividends on common shares	2,283,021	$1.030	1,839,520	$0.917
Cash dividends on preferred shares	8,962	0.400	181,042	0.600
Stock dividends on preferred shares	-	-	18,725	0.917

The bonus to employees and remuneration to directors and supervisors that were approved in the stockholders' meeting on June 14, 2013 were as follows:

	2013		2012	
	Cash Dividends	**Stock Dividends**	**Cash Dividends**	**Stock Dividends**
Bonus to employees	$ -	$ 59,752	$ -	$ 44,485
Bonus to directors and supervisors	2,988	-	2,224	-

The stock bonus to employees was $6,103 thousand and $4,261 thousand, determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting in 2014 and 2013.

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

The bonus to employees and remuneration to directors and supervisors approved in the shareholders meeting on June 6, 2013 differed from the amounts recognized in the financial statements for the year ended December 31, 2013. The differences were adjusted to profit and loss for the year ended December 31, 2014.

The appropriations from the 2014 earnings were proposed by the board of directors on March 18, 2015. The appropriations, including the dividends per share, were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 928,139	
Stock dividends on common shares	1,470,558	$0.60
Cash dividends on preferred shares	637,242	0.26

The proposed appropriations from the 2014 earnings, including the bonus to employees and remuneration to directors and supervisors, will be presented to the stockholders in their meeting on June 26, 2015.

The information on the proposed and resolved earnings appropriation is available on the Market Observation Post System web site of the Taiwan Stock Exchange.

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

f. Special reserve

Under Rule No. 1010012865 issued by the FSC, the Bank's the special reserve appropriated following the first-time adoption of IFRSs was as follows:

	December 31	
	2014	2013
Balance at January 1	$ 914,439	$ 608,209
Appropriated the special reserve		
First-time adoption of IFRS	-	507,984
Reversal of special reserve		
Reversal of other equity items minus	(355,597)	(201,754)
Balance at December 31	$ 558,842	$ 914,439

As of the IFRS transition date, the special reserve that should consist of an amount the same as the sum of the unrealized revaluation increment and cumulative translation gains transferred to retained earnings as a result of the Bank's use of exemptions under IFRS 1 was greater than $507,984 thousand, the increase in retained earnings that resulted from all IFRSs adjustments, making this increase insufficient for special reserve appropriation; thus, as allowed under the above FSC rule, the Bank appropriated $507,984 thousand as special reserve.

If the special reserve appropriated on the first-time adoption of IFRSs relates to investment property other than land, the special reserve may be reversed continually over the period of property use. The special reserve for land may be reversed on disposal or reclassification.

g. Other equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2014	2013
Balance at January 1	$ (77,629)	$ (278,935)
Exchange differences arising on translating the foreign operations	560,226	251,127
Income tax on related from translating the net assets of foreign operations	(95,238)	(49,821)
Share of exchange difference of subsidiaries accounted for using the equity method	(48,106)	-
Balance at December 31	$ 339,253	$ (77,629)

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2014	2013
Balance at January 1	$ 909,507	$ 413,490
Unrealized gain from the revaluation of available-for-sale financial assets	334,769	578,479
Income tax on unrealized gain from the revaluation of available-for-sale financial assets	(71,190)	(210,886)

(Continued)

	For the Year Ended December 31	
	2014	2013
Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets	$ (110,624)	$ 114,304
Share of exchange difference of subsidiaries accounted for using the equity method	(32,815)	14,120
Balance at December 31	$ 1,029,647	$ 909,507

(Concluded)

30. NET INTEREST

	For the Year Ended December 31	
	2014	2013
Interest revenue		
Discounts and loans	$ 5,906,403	$ 5,593,583
Debt instruments with no active market	1,743,841	1,786,560
Credit card	892,076	930,156
Due from the Central Bank and call loans to other banks	697,483	622,371
Available-for-sale financial assets	173,694	135,317
Securities purchased under resell agreements	114,536	96,244
Financial assets at fair value through profit or loss	158,643	79,197
Held-to-maturity financial assets	8,500	15,112
Others	12,018	12,803
	9,707,194	9,271,343
Interest expense		
Deposits	3,238,946	2,983,668
Securities sold under repurchase agreements	179,551	155,594
Bank debentures	179,950	130,406
Due to Chunghwa Post Co., Ltd.	64,073	66,817
Others	19,003	13,537
	3,681,523	3,350,022
	$ 6,025,671	$ 5,921,321

31. COMMISSION AND FEE REVENUES, NET

	For the Year Ended December 31	
	2014	2013
Commission and fee revenues		
Credit cards and cash cards	$ 904,081	$ 873,171
Trust business	380,874	277,182
Insurance commission	461,761	285,871
Loan business	165,316	154,683
Interbank service fee	122,726	110,200

(Continued)

	For the Year Ended December 31	
	2014	2013
Guarantee business	$ 84,039	$ 77,777
Underwriting business	110,894	70,144
Remittances	36,376	35,437
Custody	31,293	31,244
Postage/cable charge	21,264	19,322
Agency	17,102	12,178
Import and export business	8,640	8,406
Others	101,346	119,985
	2,445,712	2,075,600
Commission and fee expense		
Credit card	362,379	292,857
Verification of credit	27,485	23,588
Interbank service fee	16,273	16,611
Acquiring liquidation deal	13,697	11,751
Agency fee	10,853	9,789
Others	60,926	56,630
	491,613	411,226
	$ 1,954,099	$ 1,664,374

(Concluded)

32. GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the Year Ended December 31	
	2014	2013
Realized gain or loss on financial assets at fair value through profit or loss		
Forward exchange contracts	$ (172,136)	$ 376,521
Currency swap contracts	199,988	196,721
Convertible corporate bonds	22,322	33,014
Commercial paper	26,105	16,996
Option contracts	6,780	3,635
Beneficial securities and stocks	12,372	11,202
Government bonds	(5,826)	(4,549)
Dividend	2,349	530
Finance purchase under agreement to resell	729	-
	92,683	634,070
Unrealized gain or loss on financial assets at fair value through profit or loss		
Derivative financial assets and liabilities	210,895	14,076
Government bonds and corporate bonds	1,423	28,708
Beneficial securities and stocks	4,065	3,027
Commercial paper	1,673	(1,754)
	218,056	44,057
	$ 310,739	$ 678,127

33. REALIZED INCOME (LOSS) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

	For the Year Ended December 31	
	2014	2013
Net income on disposal - beneficial securities	$ 78,475	$ 12,344
Dividend	37,173	28,123
Net income (loss) on disposal - stocks	25,169	(130,210)
Net income on disposal - corporate bonds	6,977	3,086
Net income on disposal - government bonds	3	426
Net income (loss) on disposal - commercial paper	-	50
	$ 147,797	$ (86,181)

34. REVERSAL OF IMPAIRMENT INCOME ON ASSETS

	For the Year Ended December 31	
	2014	2013
Other financial assets	$ -	$ 68,594
Foreclosed collaterals	-	51,593
	$ -	$ 120,187

35. EMPLOYEE BENEFIT EXPENSES

	For the Year Ended December 31	
	2014	2013
Salaries and wages	$ 1,797,620	$ 1,738,990
Bonus	546,108	522,095
Pension	133,078	120,855
Labor insurance and national health insurance	214,652	197,668
Others	51,671	42,018
	$ 2,743,129	$ 2,621,626

As of December 31, 2014 and 2013, the Bank had 3,356 and 3,249 employees, respectively. For the years ended December 31, 2014 and 2013, the Bank's average number of employees was 3,286 and 3,196, respectively.

36. DEPRECIATION AND AMORTIZATION

	For the Year Ended December 31	
	2014	2013
Property and equipment	$ 170,911	$ 168,384
Intangible assets	32,993	40,267
	$ 203,904	$ 208,651

37. OTHER OPERATING EXPENSES

	For the Year Ended December 31	
	2014	2013
Rental	$ 602,907	$ 586,807
Outsourcing service	291,642	267,036
Taxation and government fee	395,589	243,917
Advertisement	350,663	284,132
Postage/cable charge	229,186	215,614
Computer operating	153,583	155,868
Deposit insurance	115,548	107,944
Maintenance charge	101,214	110,782
Marketing	57,972	56,826
Donation	35,999	26,328
Printing and binding	42,585	39,385
Others	344,846	311,348
	$ 2,721,734	$ 2,405,987

38. INCOME TAX

a. Income tax recognized in profit or loss

The main components of income tax expense were as follows:

	For the Year Ended December 31	
	2014	2013
Current tax		
Current year	$ 11,517	$ 28,131
Prior year's adjustments	(840)	-
Additional tax of unappropriated earnings	1,832	-
	12,509	28,131
Deferred tax		
Current year	569,250	442,760
Income tax expense recognized in profit or loss	$ 581,759	$ 470,891

A reconciliation of accounting profit and current income tax expenses for the years ended December 31, 2014 and 2013 is as follows:

	For the Year Ended December 31	
	2014	2013
Income before tax	$ 3,675,554	$ 3,338,782
Income tax expense at the 17% statutory rate	$ 624,844	$ 567,593
Nondeductible expenses in determining taxable income	2	49
Additional income tax under the Alternative Minimum Tax Act	11,517	28,131
Unrecognized deductible temporary differences	19,895	(36,715)
Additional tax of unappropriated earnings	1,832	-
Tax-exempt income	(75,491)	(88,167)
Adjustments for prior year's tax	(840)	-
Income tax expense recognized in profit or loss	$ 581,759	$ 470,891

The applicable tax rate used by the Bank was 17%.

As the manner of the 2015 appropriation of the 2014 earnings is uncertain, the income tax consequences on the 2014 unappropriated earnings cannot be reliably determined.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31 2014	2013
Deferred tax		
Recognized in other comprehensive income:		
Unrealized gains on available-for-sale financial assets	$ 71,190	$ 210,886
Exchange differences on the translation of financial statements of foreign operations	95,238	49,821
Actuarial gains and losses on defined benefit plans	(12,387)	(2,127)
Total income tax expenses recognized in other comprehensive income	$ 154,041	$ 258,580

c. Current tax assets and liabilities

	December 31 2014	2013
Current tax assets		
Tax refund receivable	$ 326,786	$ 160,660

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2014

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Impairment loss of financial instruments	$ 166,201	$ (163,895)	$ -	$ 2,306
Exchange difference on foreign operations	65,725	-	(65,725)	-
Employee benefit plan	111,816	1,264	12,387	125,467
Payable for annual leave	19,120	(757)	-	18,363
Allowance for possible losses	60,493	(49,620)	-	10,873
Others	17,268	3,329	-	20,597
	440,623	(209,679)	(53,338)	177,606
Loss carryforwards	2,385,432	(317,102)	-	2,068,330
	$ 2,826,055	$ (526,781)	$ (53,338)	$ 2,245,936

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax liabilities				
Temporary differences				
Exchange difference on foreign operations	$ -	$ -	$ (29,513)	$ (29,513)
Available-for-sale finance assets	(210,886)	-	(71,190)	(282,076)
Amortization of goodwill impairment loss	(330,292)	(4,437)	-	(334,729)
Others	(15,380)	(38,032)	-	(53,412)
	$ (556,558)	$ (42,469)	$ (100,703)	$ (699,730)

(Concluded)

For the year ended December 31, 2013

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Impairment loss of financial instruments	$ 165,843	$ 358	$ -	$ 166,201
Exchange difference on translation of foreign operations	115,546	-	(49,821)	65,725
Employee benefit plan	114,776	(5,087)	2,127	111,816
Payable for annual leave	14,783	4,337	-	19,120
Allowance for possible losses	37,811	22,682	-	60,493
Others	34,186	(16,918)	-	17,268
	482,945	5,372	(47,694)	440,623
Loss carryforwards	2,822,272	(436,840)	-	2,385,432
	$ 3,305,217	$ (431,468)	$ (47,694)	$ 2,826,055
Deferred tax liabilities				
Temporary differences				
Available-for-sale financial assets	$ -	$ -	$ (210,886)	$ (210,886)
Amortization of goodwill impairment loss	(325,855)	(4,437)	-	(330,292)
Others	(8,525)	(6,855)	-	(15,380)
	$ (334,380)	$ (11,292)	$ (210,886)	$ (556,558)

e. Information about loss carryforwards

The Bank's loss carryforwards as of December 31, 2014 were as followed:

Unused Amount	Expiry Year
$ 4,693,212	2017
3,598,295	2018
3,654,948	2019
220,192	2020
$ 12,166,647	

f. Information on the Bank's integrated income tax

	December 31	
	2014	2013
Unappropriated earnings		
Unappropriated earnings generated on and after January 1, 1998	$ 3,045,300	$ 2,792,439
Imputation credits accounts	$ 83,231	$ 2,553

The creditable ratios for the distribution of the earnings of 2014 and 2013 were 2.73% (expected ratio) and 0%, respectively.

The Bank disagreed with the tax authorities' assessment of its ending balance of imputation credit accounts (ICA) for 2012. It will determine the creditable ratios for the distribution of the 2013 earnings after its application for the reexamination of the 2012 ICA ending balance.

Under the Income Tax Law, for the distribution of earnings generated from January 1, 1998, the imputation credits allocable to ROC resident stockholders of the Bank are calculated on the basis of the creditable ratio as of the date of dividend distribution. The actual imputation credits allocable to stockholders of the Bank are based on the balance of the imputation credit accounts as of the date of dividend distribution. Thus, the expected creditable ratio for the 2014 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the stockholders.

g. The Bank's income tax returns through 2008, 2011 and 2012 have been examined and cleared by the tax authorities. The Bank disagreed with the tax authorities' assessment of the Bank's 2011 and 2012 amortization of goodwill, 2012 imputation credits accounts. The Bank had applied for a re-examination.

39. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) are summarized as follows:

	Numerator (Amounts)		Denominator (Shares in Thousands)	Earnings Per Share (NT$)	
	Pretax	After Tax		Pretax	After Tax
2014					
Basic EPS					
Income for the year attributable to common stockholders	$ 3,675,554	$ 3,093,795	2,448,322	$ 1.50	$ 1.26
Bonus to employees	-	-	9,325		
Diluted EPS	$ 3,675,554	$ 3,093,795	2,457,647	$ 1.50	$ 1.26
2013					
Basic EPS	$ 3,338,782	$ 2,867,891			
Less: Preferred dividends	(8,962)	(8,962)			
Basic EPS					
Income for the year attributable to common stockholders	3,329,820	2,858,929	2,427,976	$ 1.37	$ 1.18
Effect of potential dilutive convertible preferred stock	8,962	8,962	14,993		
Bonus to employees	-	-	8,021		
Diluted EPS	$ 3,338,782	$ 2,867,891	2,450,990	$ 1.36	$ 1.17

If the Bank decides to settle the bonus to employees by cash or shares, the Bank should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding to be used in calculating the diluted EPS. This dilutive effect of the potential shares should be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The Bank's record dates for the distribution of stock dividends appropriated from the 2014 and 2013 earnings were August 2, 2014 and August 12, 2013, respectively.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of employee stock bonuses and stock dividends. This adjustment caused the basic and diluted EPS after income tax for 2013 to decrease from NT$1.30 to NT$1.18 and from NT$1.29 to NT$1.17, respectively.

40. RELATED-PARTY TRANSACTIONS

In addition to those disclosed in other footnotes, significant transactions between the Bank and related parties are summarized as follows:

a. Related parties and their relationships with the Bank

Related Party	Relationship with the Bank
Union Finance and Leasing International Corporation (UFLIC)	Subsidiary
Union Information Technology Corporation (UIT)	Subsidiary
Union Insurance Broker Company (UIB)	Subsidiary
Union Finance International (H.K.) Limited	Subsidiary
Union Securities Investment Trust Corporation (USITC)	Subsidiary
Union Capital (Cayman) Corp.	Subsidiary of UFLIC
New Asian Ventures Ltd.	Subsidiary of UFLIC
Union Capital (Singapore) Holding Pte. Ltd. (UCSH)	Subsidiary of Cayman
Kabushiki Kaisha UCJ1 (KK)	Subsidiary of UCSH
Tokutei Mokuteki Kaisha SSG15 (TMK SSG15)	Subsidiary of USCH and KK
Union Real-Estate Management Corporation	Equity-method investee of the Bank
Hung-Kou Construction Inc., Ltd. ("Hung-Kou")	Its chairman is a close relative of the Bank's director/general manager
Union Ran Zheng Co., Ltd. (URZ)	Its chairman is a close relative of the Bank's director/general manager
The Liberty Times Co., Ltd. ("Liberty Times")	The Bank's director/general manager and the chairman of the board of directors are the director and supervisor, respectively, of Liberty Times
Long Shan Lin Corporation	Its chairman is a close relative of the Bank's director/general manager
Yong-Xuan Co., Ltd. ("Yong-Xuan")	Its chairman is a close relative of the Bank's director/general manager
Union Enterprise Construction Co., Ltd. (UECC)	Director of the Bank
Yu-Pang Co., Ltd. ("Yu-Pang")	Director of the Bank
Morgan Stanley Union Bank Assets Management Corporation (MSUB)	Related party in substance
Union Recreation Enterprise Corporation	Related party in substance
Others	Directors, supervisors, managers, and their relatives and affiliates

b. Significant transactions with related parties:

1) Loans

December 31, 2014

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2014	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonperforming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	4	$ 2,790	$ 2,538	$ 2,538	$ -	-	None
Self-used housing mortgage loans	15	78,683	71,341	71,341	-	Real estate	None
Others	UFLIC	2,167,788	1,844,941	1,844,941	-	Land, buildings and foreign time deposits	None
Others	5	586,736	586,697	586,697	-	Land, plant buildings and time deposits	None

December 31, 2013

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2013	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonper-forming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	5	$ 3,785	$ 3,707	$ 3,707	$ -	-	None
Self-used housing mortgage loans	18	92,964	86,935	86,935	-	Real estate	None
Others	UFLIC	2,239,549	2,167,788	2,167,788	-	Land, buildings and foreign time deposits	None
Others	3	567,665	567,643	567,643	-	Land, plant, buildings and time deposits	None

	December 31		Interest Revenue		
	Amount	%	Rate	Amount	%
2014	$ 2,505,517	0.97	1.34%-2.930%	$ 44,417	0.46
2013	2,826,073	1.23	1.34%-3.185%	46,548	0.50

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate	Amount	%
2014	$ 5,430,728	1.37	0%-3.80%	$ 39,643	1.08
2013	5,471,612	1.50	0%-4.21%	33,499	1.00

3) Guarantees and letters of credit

December 31, 2014

Name	Highest Balance in the Year Ended December 31, 2014	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 39,874	$ 39,874	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	20,187	-	-	0.05%	Land and buildings
Long Shan Lin Corporation	71,040	71,040	-	0.3%	Time deposits

December 31, 2013

Name	Highest Balance in the Year Ended December 31, 2013	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 54,899	$ 39,874	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	17,390	13,665	-	0.05%	Land and buildings
Long Shan Lin Corporation	71,040	71,040	-	0.3%	Time deposits

Note: Reserve for guarantee loss is provided on the basis of the estimated unrecoverable amount.

4) Securities brokerage fees

	For the Year Ended December 31	
	Amount	%
2014	$ 4,085	6.06
2013	2,892	5.34

5) Leases

a) The Bank as lessee

Under operating lease agreements with terms of one year to five years, the Bank rents from related parties office spaces for use by the Head Office, Trust, International Banking Department, Wealth Management, Information Technology Department, Consumer Banking Department, Credit Card Department, the Northern Collateral Appraisal Center, and five branches. Rentals are payable quarterly, with some contracts allowing placement with the lessors of lease deposits in lieu of rental payments. Rental expenses and lease deposits were as follows:

	Lease Deposit (Part of Other Financial Assets)		Rental Expense (Part of Other Operating Expense)	
	Amount	%	Amount	%
2014				
Yu-Pang	$ 454,290	25.00	$ 14,821	2.46
Hung-Kuo	218,760	12.04	100,675	16.70
Yong-Xuan	13,649	0.75	57,514	9.54
UECC	4,384	0.24	9,266	1.54
UFLIC	-	-	3,447	0.57
2013				
Yu-Pang	454,290	26.09	14,821	2.53
Hung-Kuo	218,760	12.56	100,675	17.16
Yong-Xuan	13,649	0.78	57,514	9.80
UECC	4,384	0.25	9,266	1.58
UFLIC	-	-	3,447	0.59

The Bank rented cars for business use from UFLIC; the rental expenses were $9,756 thousand in 2014 and $9,615 thousand in 2013. Rentals payable as of December 31, 2014 and 2013 were $79 thousand and $85 thousand, respectively.

b) The Bank as lessor

The Bank's South Taoyuan Branch, Kaohsiung Branch, Minchuan Branch, Chiayi Branch and Fucheng Branch leased part of their office premises to UFLIC under operating lease agreements starting from December 2014 to August 2019, from June 2011 to December 2015, from November 2011 to September 2017, from July 2014 to July 2019, and from June 2013 to June 2018, respectively. The leasing revenues received were $1,126 thousand and $910 thousand in 2013 and 2012, respectively. The lease deposits received (included in other liabilities) were $295 thousand and $235 thousand in 2013 and 2012, respectively.

6) Available-for-sale financial assets

As of December 31, 2014 and 2013, the Bank had purchased 97,504 thousand units and 59,386 thousand units, respectively, of beneficial certificates issued by USITC, which amounted to $1,213,925 thousand and $757,198 thousand, respectively.

7) UIT sold computers and related materials and software and provided network services to the Bank. The purchase and service fees were $109,160 thousand in 2014 and $90,667 thousand in 2013.

8) The Bank provided insurance consulting service and sales assistance to UIB. The commission and fee revenues were $198,735 thousand in 2014 and $173,769 thousand in 2013. The commission revenues on insurance premium (included in commissions and fee revenue) were $454,440 thousand in 2014 and $285,977 thousand in 2013.

9) For credit card promotion, the Bank bought from Union Finance and Leasing International Corporation (UFLIC) classic commemorative watches and backpacks with authorized Ferrari logos for $25,767 thousand (included in other operating expenses) in 2013.

10) In July 2013, the Bank made an agreement with USITC that the Bank will have custody of the bonds issued by Lehman Brother Treasury Co. after the liquidation of asset-backed commercial paper of Taishin International Bank Co., Ltd. issued by the Land Bank of Taiwan. The custodial fees were $25 thousand in 2014 and $9 thousand in 2013.

Under the Banking Law, except for consumer and government loans, credits extended by the Bank to any related party should be fully secured, and the credit terms for related parties should be similar to those for unrelated parties.

For transactions between the Bank and related parties, the terms are similar to those transacted with third parties, except for the preferential interest rates offered to Bank employees for savings and loans within prescribed amounts.

c. Compensation of directors, supervisors and management personnel:

	For the Year Ended December 31	
	2013	**2012**
Short-term employment benefits		
Salaries	$ 29,431	$ 27,390
Transportation expenses	1,662	1,502
	31,093	28,892
Post-employment benefits	1,987	3,384
	$ 33,080	$ 32,276

Compensation of directors and management personnel is determined by the remuneration committee on the basis of individual performance and market trends.

41. PLEDGED ASSETS

As of December 31, 2014 and 2013, government bonds and bank debentures, which amounted to $107,400 thousand and $119,500 thousand (all amounts included in other financial assets), respectively, had been provided to the courts and the Bank of Taiwan as guarantee deposits on provisional seizures against the debtors' properties, as reserve for credit card receivables, as guarantee deposits on bills finance operations, and as trust reserve. In addition, as of December 31, 2014 and 2013, negotiable certificates of deposit, which amounted to $8,100,000 thousand and $8,700,000 thousand, respectively (all amounts included in other financial assets), had been provided to the Central Bank as collateral for day-term overdraft.

In 2014, the Bank pledged a time deposit of $200,000 thousand (part of other financial assets) to Mega International Commercial Bank to be part of the latter's online bank-to-bank payment system.

42. CONTINGENCIES AND COMMITMENTS

a. As of December 31, 2014 and 2013, the Bank's commitments consisted of the following:

	December 31	
	2014	**2013**
Irrevocable standby loan commitment	$ 120,749,277	$ 76,818,305
Unused credit card commitment	180,297,105	183,598,978
Unused letters of credit	966,744	724,584
Other guarantees	13,189,724	10,679,535
Collections for customers	24,869,977	25,007,132
Travelers' checks consigned-in	132,133	146,347
Guarantee notes payable	8,435,400	4,350,700
Trust assets	58,538,229	59,050,568
Marketable securities under custody	406,380	407,669

b. The Bank as lessee

The Bank rents several office premises for its branches under operating leases with terms ranging between 2 and 20 years. All operating lease contracts over 5 years contain clauses for market rental reviews for every five years. The Bank does not have a bargain purchase option to acquire the leased premises at the expiration of the lease period.

As of December 31, 2014 and 2013, refundable deposits paid under operating leases were $793,634 thousand and $797,429 thousand, respectively (included in other assets - refundable deposits).

The Bank's future minimum lease payments for noncancellable operating lease commitments were as follows:

	December 31	
	2014	**2013**
Within 1 year	$ 379,580	$ 440,696
Over 1 year up to 5 years	754,928	582,874
Over 5 years	594,003	331,668
	$ 1,728,511	$ 1,355,238

c. The Bank as lessor

The Bank rents out properties under operating leases with the terms ranging between 3 and 6 years. All operating lease contracts contain market review clauses so that the lessee has an option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiration of the lease period.

As of December 31, 2014 and 2013, refundable deposits paid under operating leases were $3,705 thousand and $3,618 thousand, respectively (included in other liabilities - guarantee deposits received).

The Bank's future minimum lease payments for noncancellable operating lease commitments were as follows:

	December 31 2014	December 31 2013
Within 1 year	$ 10,426	$ 9,190
Over 1 year up to 5 years	13,190	11,293
	$ 23,616	$ 20,483

d. Computer equipment purchase contracts

As of December 31, 2014 and 2013, the Bank had contracts to buy computer equipment and software for $284,797 thousand and $20,921 thousand, respectively, of which $110,951 thousand and $10,738 thousand had been paid as of December 31, 2014 and 2013, respectively.

43. TRUST BUSINESS UNDER THE TRUST LAW

Balance Sheet of Trust Accounts
December 31, 2014

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 2,810,860	Income tax payable	$ 107
Investments		Marketable securities payable	8,045,899
Mutual funds	36,510,764	Trust capital	50,528,464
Common stock	153,330	Reserve and deficit	(36,241)
Short-term bills and securities purchased under resell agreements	98,848		
Accounts receivable	2,014		
Stock in custody	8,045,899		
Real estate - land and building	10,916,514		
Total	$ 58,538,229	Total	$ 58,538,229

Balance Sheet of Trust Accounts
December 31, 2013

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 4,341,603	Income tax payable	$ 104
Investments		Marketable securities payable	9,672,156
Mutual funds	35,670,405	Trust capital	49,423,727
Common stock	153,251	Reserve and deficit	(45,419)
Short-term bills and securities purchased under resell agreements	80,235		
Accounts receivable	2,127		
Stock in custody	9,672,156		
Real estate - land and building	9,130,791		
Total	$ 59,050,568	Total	$ 59,050,568

Income Statement of Trust Accounts
Year Ended December 31, 2014

	Amount
Trust income	
Interest revenue - demand accounts	$ 738
Interest revenue - time deposits	8,041
Interest revenue - short-term bills and securities purchased under resell agreements	403
Income from beneficial certificates	251
Realized capital gain - fund	466
Unrealized capital gain - fund	537
Other revenue - tax refund additional of interest	1
Total trust income	10,437
Trust expense	
Management expense	9,263
Taxation	28,840
Agents fee	4,222
Realized capital loss - fund	55
Unrealized capital loss - fund	707
Other	4,857
Total trust expense	47,944
Loss before tax	(37,507)
Income tax expense	(746)
Net loss	$ (38,253)

Note: The above trust income statements were not included in the Bank's income statements.

Income Statement of Trust Accounts
Year Ended December 31, 2013

	Amount
Trust income	
Interest revenue - demand accounts	$ 2,348
Interest revenue - time deposits	7,077
Interest revenue - short-term bills and securities purchased under resell agreements	368
Cash dividends	8,391
Income from beneficial certificates	420
Realized capital gain - fund	1,469
Unrealized capital gain - GTSM stock	40,823
Unrealized capital gain - fund	688
Total trust income	61,584
Trust expense	
Management expense	7,654
Taxation	58,396
Realized capital loss - fund	297
Unrealized capital loss - fund	641
Other	17,824
Total trust expense	84,812
Loss before tax	(23,228)
Income tax expense	(1,304)
Net loss	$ (24,532)

Note: The above trust income statements were not included in the Bank's income statements.

Trust Property and Equipment Accounts
December 31, 2014

Investment Portfolio	Amount
Bank deposits	$ 2,810,860
Investments	
Mutual funds	36,510,764
Common stock	153,330
Short-term bills and securities purchased under resell agreements	98,848
Accounts receivable	2,014
Stock in custody	8,045,899
Real estate - land and buildings	10,916,514
	$ 58,538,229

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2014.

Trust Property and Equipment Accounts
December 31, 2013

Investment Portfolio	Amount
Bank deposits	$ 4,341,603
Investments	
Mutual funds	35,670,405
Common stock	153,251
Short-term bills and securities purchased under resell agreements	80,235
Accounts receivable	2,127
Stock in custody	9,672,156
Real estate - land and buildings	9,130,791
	$ 59,050,568

44. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

Except for the financial instruments shown in the following table, the management believes that the financial assets and financial liabilities recognized in the financial statements either have carrying amounts that approximate their fair values or have fair values that cannot be reasonably measured.

	December 31			
	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Held-to-maturity financial assets	$ 521,266	$ 526,438	$ 428,017	$ 436,693
Debt instruments with no active market	45,121,992	42,295,080	48,516,710	45,201,547

(Continued)

	December 31			
	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial liabilities				
Bank debentures	$ 7,400,000	$ 7,560,935	$ 7,400,000	$ 7,557,098

(Concluded)

b. The financial instruments measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants with full understanding of the sale or transfer transaction. The fair values of financial instruments at fair value, available-for-sale financial assets and hedging derivative financial instruments with quoted price in an active market are based on their market prices; financial instruments with no quoted prices in an active market are estimated by valuation methods.

1) Marking to market

This method should be used first to determine fair value. Following are the principles to follow in marking to market:

a) Ensure the consistency and integrity of market data.

b) The source of market data should be transparent and easy to access and can be referred to by independent resources.

c) Listed securities with tradable prices should be valued at closing prices.

d) Evaluating unlisted securities that lack tradable closing prices should use quoted prices from independent brokers.

2) Marking to model

The use of marking to model is suggested if marking to market is infeasible. This valuation methodology is based upon model inputs that are used to derive the value of the trading positions. The Bank uses the same estimations and assumptions as those used by market participants to determine the fair value.

The Bank uses the forward rates provided by Reuters to estimate the fair values of forward contracts, foreign exchange swap contracts, interest rate swap and cross-currency swap contacts and the discounted cash flow method to calculate the fair values of each contract. For foreign exchange option transactions, the Bank uses the option pricing models which are generally used by other market participants (e.g., the Black-Scholes model) to calculate the fair value of the contracts.

For debt instruments with no active market, the Bank estimates fair values based on prices quoted by counterparties and adjusted in accordance with the results of the evaluation of a debtor's credit.

c. Three-level fair value hierarchy

The definitions of each level of the fair value hierarchy are shown below:

1) Level 1

Level 1 financial instruments are traded in an active market in which there are quoted prices for identical assets and liabilities. An active market has the following characteristics:

a) All financial instruments in the market are homogeneous.

b) There are willing buyers and sellers in the market all the time.

c) The public can access the price information easily.

The products in this level, such as listed stocks and beneficial securities, usually have high liquidity or are traded in futures market or exchanges.

2) Level 2

The products in this level have fair values that can be inferred from either directly or indirectly observable inputs other than quoted prices in an active market. Examples of these inputs are:

a) Quoted prices from the similar products in an active market. This means the fair value can be derived from the current trading prices of similar products, and whether they are similar products should be judged on the characteristics and trading rules. The fair price valuation in this circumstance may be adjusted due to time differences, trading rule's differences, interested parties' prices, and the correlation of price between itself and the similar goods;

b) Quoted prices for identical or similar financial instruments in inactive markets;

c) For the marking-to-model method, the inputs to this model should be observable (such as interest rates, yield curves and volatilities). The observable inputs mean that they can be obtained from the market and can reflect the expectation of market participants;

d) Inputs that are derived from observable market data through correlation or other means.

The fair values of products categorized in this level are usually calculated using a valuation model generally accepted by the market. Examples are forward contracts, cross-currency swap, simple interest bearing bonds, convertible bonds and commercial paper.

3) Level 3

The fair values of the products in this level are typically based on management assumptions or expectations other than the direct market data. For example, historical volatility used in valuing options is an unobservable input because it cannot represent the entire market participants' expectation on future volatility.

The products in this level are complex derivate financial instruments or products with prices that are provided by brokers. Examples are complex foreign exchange options.

d. The fair value hierarchies of the Bank's financial instruments as of December 31, 2014 and 2013 were as follows:

(In Thousands of New Taiwan Dollars)

	December 31, 2014			
	Total	**Level 1**	**Level 2**	**Level 3**
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 131,750	$ 131,750	$ -	$ -
Debt instruments	154,538	-	154,538	-
Commercial paper	15,797,263	-	15,797,263	-
Financial assets designated as at FVTPL on initial recognition	1,362,869	-	1,362,869	-
Principal guaranteed notes	459,947	-	459,947	-
Available-for-sale financial assets				
Stock	3,048,702	3,048,702	-	-
Debt instruments	8,081,287	-	8,081,287	-
Beneficial certificates	2,569,496	2,569,496	-	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	466,769	-	362,359	104,410
Liabilities				
Financial liabilities at FVTPL	211,084	-	106,573	104,511

	December 31, 2013			
	Total	**Level 1**	**Level 2**	**Level 3**
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 157,846	$ 157,846	$ -	$ -
Debt instruments	205,635	-	205,635	-
Commercial paper	7,566,717	-	7,566,717	-
Financial assets designated as at FVTPL on initial recognition	1,854,346	-	1,854,346	-
Available-for-sale financial assets				
Stock	2,007,897	2,007,897	-	-
Debt instruments	4,862,614	-	4,862,614	-
Negotiable certificates of deposit	216,098	-	216,098	-
Beneficial certificates	1,413,583	1,413,583	-	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	78,713	-	72,865	5,848
Liabilities				
Financial liabilities at FVTPL	16,006	-	10,158	5,848

e. Reconciliation of Level 3 items of financial instruments

1) Reconciliation of Level 3 items of financial assets

For the year ended December 31, 2014

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gain (Loss) in Net Income or Stockholders' Equity	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss							
Derivative financial assets	$ 5,848	$ 87,946	$ 30,035	$ -	$ (19,419)	$ -	$ 104,410

For the year ended December 31, 2013

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gain (Loss) in Net Income or Stockholders' Equity	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss							
Derivative financial assets	$ 908	$ (1,418)	$ 23,268	$ -	$ (16,910)	$ -	$ 5,848

2) Reconciliation of Level 3 items of financial liabilities

For the year ended December 31, 2014

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gain (Loss) in Net Income or Stockholders' Equity	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss							
Derivative financial liabilities	$ 5,848	$ 85,673	$ 39,021	$ -	$ (26,031)	$ -	$ 104,511

For the year ended December 31, 2013

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gain (Loss) in Net Income or Stockholders' Equity	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss							
Derivative financial liabilities	$ 908	$ (2,469)	$ 25,948	$ -	$ (18,539)	$ -	$ 5,848

f. Transfer between Level 1 and Level 2

There was no material transfer between Level 1 and Level 2 for 2014 and 2013.

g. Sensitivity analysis of Level 3 fair value if reasonably possible alternative assumptions used

The Bank's Level 3 financial instruments are foreign exchange options. When engaging in foreign exchange option transactions, the Bank makes a match for other banks and customers. Thus, the Bank does not hold positions, and its source of profit and loss is from receiving and paying premiums. The sensitivity analysis has no effect on profit and loss since the Bank does back-to-back transactions and the assets offset the liabilities.

45. FINANCIAL RISK MANAGEMENT

a. Overview

To deal with any expected or unexpected business risk, the Bank has established a comprehensive risk management system to allocate resources effectively and efficiently, strengthen business competitiveness, mitigate operational risk to a tolerable or acceptable level, and maintain the capital adequacy ratio to meet the minimum requirements of the authorities and the Basel Accord framework.

b. Risk management framework

The Board of Directors, which occupies the highest level in the Bank's risk management framework, reviews risk management policies, the overall risk management framework and organization structure for carrying out responsibilities and exercising accountability. The Asset/Liability Management Committee inspects management reports or information provided by business units and the Risk Management Division. The Risk Management Division is an independent unit that is in charge of reviewing the risk management system designed by business units and the compliance with risk management requirements; this division also submits risk management reports to the authorities and develops a series of risk management tools to assess the risks identified. Business units establish risk control procedures, manage and monitor the implementation of those controls in operation units. Operation units perform daily risk management work and internal controls to ensure the accuracy and completeness of the risk management information generated.

c. Credit risk

1) Credit risk definitions and sources

Credit risk refers to the risk of losses caused by borrowers, debtors, or counterparties' failure to fulfill their contractual obligations due to deteriorating financial position or other factors. It arises principally from transactions involving discounts, loans, credit cards, due from or call loans to banks, debt investments and derivatives etc., and also from off-balance sheet products such as guarantees, acceptance, letters of credit and commitments.

2) Strategy/objectives/policies and processes

a) Credit risk management strategy: The Bank has established "Credit Risk Management Standards of Union Bank of Taiwan" as the basis of planning, implementing, and managing credit risk management system.

b) Credit risk management objective: The objectives are to establish and implement an effective credit risk management mechanism to mitigate credit risk, archive operational and management goals, and balance business development and risk control.

c) Credit risk management policy: The policies are meant to ensure that credit risk falls within an acceptable range and that adequate capital is maintained to meet credit risk management objectives and create maximum risk-adjusted returns.

d) Credit risk management process: The Bank carries out credit risk identification, credit risk measurement, credit risk mitigation, credit risk monitoring and control and credit risk reporting process as part of its credit risk management mechanism.

3) Credit risk management framework

a) The Board of Directors: The Board of Directors, the top risk supervisor of the Bank, reviews risk management policies, operational risk limits and the design and change of credit risk management framework.

b) Asset/Liability Management Committee: This committee inspects management reports or information provided by business units and the Risk Management Division.

c) Risk Management Division: The Risk Management Division is an independent unit that is in charge of the work related to three pillars of Basel and reviews the risk management system designed by business units and the compliance with risk management requirements; the division also submits risk management reports to the authorities and develops risk management tools to assess the risk identified.

d) Business units: Business units are responsible for establishing risk management regulations and risk control procedures and managing and monitoring the implementation of those controls in operation units.

e) Operation units: Under the risk management regulations and procedures set by business units, operation units perform daily risk management work and internal controls and prepares reports on these tasks.

4) Credit risk measurement, control and reporting

a) The range of credit risk reporting:

i. Each business unit will regularly report the promotion of the business and the allocation of risk assets to the Assets/Liability Management Committee (ALMC).

ii. The Bank's risk management department regularly monitors the credit limit control situations and reports to the ALMC the credit concentration and the status of each business' achieving BIS (Bank for International Settlements) goals. The department also presents the volume of business NPL situation, credit concentration and the execution of credit risk control to the Board.

b) Measurement system:

The Bank's credit risk management adopts the use of the standardized approach to calculate capital charge and regularly submits related reports to the government. The risk management division and business units implement the Bank's management system and monitors the credit exposure of the business, industry, and countries as well as the concentration of credit and collateral to effectively measure and manage investment portfolio.

5) Mitigation of risks or hedging of credit risk

The Bank is exposed to loss on each credit risk faced by its business. Thus, depending on the nature of the business and the cost considerations, the Bank will take appropriate measures to control risk. The Bank's information systems provide information that can be used in managing risk control procedures, and the risk management division reports to the board every six months the business risk management status.

6) Maximum exposure to credit risk

The maximum credit exposures of assets in the balance sheet are almost equivalent to their carrying values. These off-balance sheet maximum credit exposures (excluding collaterals and other credit enhancement instruments) are shown as follows:

Off-Balance Sheet Items	The Maximum Credit Exposure December 31	
	2014	2013
Irrevocable standby loan commitment	$ 231,304	$ 407,811
Unused letters of credit	966,744	724,584
Other guarantees	13,189,724	10,679,535
Unused credit card commitments	180,297,105	183,598,978

7) Concentrations of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic or other conditions.

There can be credit risk concentrations in a bank's assets, liabilities, or off-balance sheet items through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. These exposures can cover credits, loans and deposits, call loans to banks, investments, receivables and derivatives. To minimize its credit risk, the Bank maintains a diversified portfolio; limits its exposure to any one geographic region, country or individual creditor; and closely monitors its exposures. The Bank's most significant concentrations of credit risk are summarized as follows:

a) By industry

	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
Private enterprises	$ 69,979,750	25.59	$ 56,868,907	23.36
Public enterprises	4,306,000	1.57	4,038,000	1.66
Government organizations	28,801,024	10.53	19,000,000	7.8
Nonprofit organizations	784,346	0.29	1,054,984	0.43
Private organizations	168,054,945	61.45	160,782,463	66.04
Foreign enterprises	1,572,487	0.57	1,725,014	0.71
Total	273,498,552	100.00	243,469,368	100.00

b) By geographical area

The Bank's operations are mainly in Taiwan.

c) By collaterals

	December 31, 2014		December 31, 2013	
	Amount	**%**	**Amount**	**%**
Unsecured	$ 55,910,805	20.44	$ 41,390,240	17.00
Secured				
Financial instruments	7,536,027	2.76	6,721,311	2.76
Stocks	8,734,316	3.19	8,106,758	3.33
Properties	179,565,252	65.65	166,388,408	68.34
Movables	12,268,583	4.49	10,171,610	4.18
Guarantees	6,726,704	2.46	6,376,124	2.62
Others	2,756,865	1.01	4,314,917	1.77
Total	273,498,552	100.00	243,469,368	100.00

8) Credit quality and impairment assessment

Some financial assets - cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit or loss, repos and debt securities, refundable deposits, guaranty bonds and clearing and settlement fund - are regarded as having very low credit risk because of the good credit ratings of counterparties. Other financial assets not regarded as having low credit risk are summarized as follows:

a) Discounts, loans and receivables

December 31, 2014	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Excellent	Good	Acceptable	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables											
Credit card business	$ 7,089,540	$ 3,926,720	$ 51,007	$ -	$ 11,067,267	$ 145,339	$ 1,655,812	$ 12,868,418	$ 73,632	$ 49,387	$ 12,745,399
Acceptances receivable	78,690	30,903	-	-	109,593	-	-	109,593	-	217	109,376
Others	1,623,334	84,327	23,427	3,557	1,734,645	1,719	101,295	1,837,659	4,113	10,069	1,823,477
Discounts and loans											
Consumer finance	85,934,030	30,294,705	18,587,670	2,272,214	137,088,619	260,894	80,648	137,430,161	34,937	1,263,349	136,131,875
Corporate banking	72,999,666	46,899,194	839,663	91,604	120,830,127	26,357	1,912,590	122,769,074	262,887	1,005,941	121,500,246

December 31, 2013	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Excellent	Good	Acceptable	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables											
Credit card business	$ 6,112,602	$ 3,894,359	$ 74,870	$ -	$ 10,081,831	$ 168,377	$ 1,945,801	$ 12,196,009	$ 89,021	$ 44,886	$ 12,062,102
Acceptances receivable	71,567	51,238	-	-	122,805	-	-	122,805	-	255	122,550
Others	1,201,786	77,280	25,653	3,194	1,307,913	2,090	390,045	1,700,048	118,839	23,243	1,557,966
Discounts and loans											
Consumer finance	78,856,081	28,371,536	19,515,676	1,915,312	128,658,605	309,645	81,889	129,050,139	45,771	1,350,220	127,654,148
Corporate banking	60,960,208	38,906,782	1,173,152	-	101,040,142	25,270	2,551,477	103,616,889	476,265	652,180	102,488,444

b) Credit quality analysis of securities

December 31, 2014	Neither Past Due Nor Impaired Amount (Note)				Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Investment Grade	Non-investment Grade	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With Objective Evidence of Impairment	
Available-for-sale financial assets										
Investments in bonds	$ 8,081,287	$ -	$ -	$ 8,081,287	$ -	$ -	$ 8,081,287	$ -	$ -	$ 8,081,287
Investments in stocks	2,872,617	176,085	-	3,048,702	-	-	3,048,702	-	-	3,048,702
Others	903,204	-	1,666,292	2,569,496	-	-	2,569,496	-	-	2,569,496
Held-to-maturity financial assets										
Investments in bonds										
Others	521,266	-	-	521,266	-	-	521,266	-	-	521,266
Other financial assets										
Investments in bonds	45,121,992	-	-	45,121,992	-	-	45,121,992	-	-	45,121,992
Investments in stocks	-	-	515,451	515,451	-	-	515,451	-	-	515,451

December 31, 2013	Neither Past Due Nor Impaired Amount (Note)				Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Investment Grade	Non-investment Grade	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With Objective Evidence of Impairment	
Available-for-sale financial assets										
Investments in bonds	$ 4,862,614	$ -	$ -	$ 4,862,614	$ -	$ -	$ 4,862,614	$ -	$ -	$ 4,862,614
Investments in stocks	1,950,638	57,259	-	2,007,897	-	-	2,007,897	-	-	2,007,897
Others	404,310	-	1,225,371	1,629,681	-	-	1,629,681	-	-	1,629,681
Held-to-maturity financial assets										
Investments in bonds	329,335	-	-	329,335	-	-	329,335	-	-	329,335
Others	98,682	-	-	98,682	-	-	98,682	-	-	98,682
Other financial assets										
Investments in bonds	48,516,710	-	-	48,516,710	-	-	48,516,710	-	-	48,516,710
Investments in stocks	-	-	413,715	413,715	-	-	413,715	-	-	413,715

Note: The definitions are as follows:

1. Investment grade: Credit rating is BBB - or higher or 1-5 TCRI corporate rating of TEJ if it is a publicly traded company.
2. Non-investment grade: Credit rating is BB + or higher or 6-9 TCRI corporate rating of TEJ if it is a publicly traded company.
3. No ratings: No external ratings.

9) Aging analysis of overdue but not yet impaired financial assets

Delays in processing payments by borrowers and other administrative reasons could result in financial assets becoming overdue but unimpaired. Based on the Bank's internal risk management policies, financial assets that are 90 days overdue are not considered impaired unless evidences show otherwise.

The aging analysis of overdue but unimpaired financial assets was as follows:

	December 31, 2014			
	Overdue Less Than One Month	**Overdue One to Three Months**	**Overdue Over Three to Six Months**	**Total**
Accounts receivable				
Credit cards	$ 111,489	$ 33,850	$ -	$ 145,339
Others	1,116	603	-	1,719
Discounts and loans				
Consumer finance	210,783	50,111	-	260,894
Corporate banking	14,082	12,275	-	26,357

	December 31, 2013			
	Overdue Less Than One Month	**Overdue One to Three Months**	**Overdue Over Three to Six Months**	**Total**
Accounts receivable				
Credit cards	$ 133,441	$ 34,936	$ -	$ 168,377
Others	1,435	655	-	2,090
Discounts and loans				
Consumer finance	250,725	58,920	-	309,645
Corporate banking	15,933	9,337	-	25,270

10) Analysis of impairment for financial assets

The Bank's assessment of loans and receivables for impairment indicated no impairment loss on due from other banks, due from the Central Bank and call loans to other banks. The assessment of the other loans and receivables was as follows:

Discounts and loans

Type of Impairment		December 31, 2014		December 31, 2013	
		Discounts and Loans	**Allowance for Doubtful Accounts**	**Discounts and Loans**	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Assessment of individual impairment	$ 1,836,293	$ 227,055	$ 2,485,682	$ 439,408
	Assessment of collective impairment	337,726	70,769	384,979	82,628
With no objective evidence of impairment	Assessment of collective impairment	258,432,705	2,269,290	230,200,571	2,002,400

Note 1: The loans are those originated by the Bank, and are not net of the allowance for doubtful accounts and adjustments for discount (premium).

Note 2: The above loans include accrued interest receivables on loans, acceptances, guarantee payment receivables and exchange bills negotiated.

Receivables

Type of Impairment		December 31, 2014		December 31, 2013	
		Discounts and Loans	**Allowance for Doubtful Accounts**	**Discounts and Loans**	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Individually assessed for impairment	$ 26,892	$ 3,803	$ 1,177,944	$ 117,166
	Collectively assessed for impairment	1,655,812	73,632	1,945,801	89,021
With no objective evidence of impairment	Collectively assessed	11,209,700	59,983	10,246,666	70,057

Note 1: The receivables are those originated by the Bank, and are not net of the allowance for doubtful accounts and adjustments for discount (premium).

Note 2: The above receivables and allowances exclude accrued interest receivables on loans, acceptances, guarantee payments receivables, nondelivery receivables and option payments receivable, etc.

11) Analysis of impairment for financial assets

On the basis of the result of a credit evaluation, the Bank may require collaterals before drawings are made on the credit facilities. For minimized credit risk, appropriate collaterals are required on the basis of the borrowers' financials and debt service capabilities. All guarantees and appraisal procedures follow the authorities' relevant regulations and the Bank's internal rules. The Bank's internal rules describe the acceptable types of collaterals, appraisal methods, appraisal process, and post-approval collateral management, which require the close monitoring of the value of collaterals to ensure repayment security. The main collateral types are summarized as follows:

a) Real estate
b) Other property
c) Securities/stock
d) Deposits/certificates of deposits
e) Credit guarantee fund or government guarantee

d. Liquidity risk

1) Source and definition of liquidity risk

Liquidity risk means banks cannot provide sufficient funding for asset size growth and for meeting obligations on matured liabilities or have to make late payments to counterparties or raise emergency funding to cover funding gaps.

2) Liquidity risk management strategy and principles

a) The Board of Directors, the top risk supervisor of the Bank, regularly reviews liquidity risk management policies. The Asset/Liability Management Committee, the top liquidity risk executive of the Bank, supervises the implementation of liquidity risk monitoring and control procedures and is responsible for taking any needed remedial measures.

b) In making internal transfer pricing, performance evaluation and new product development decisions, the operation units take liquidity cost and product effectiveness and risks into consideration and align their decisions with the Bank's overall liquidity risk management policies.

c) The fund procurement department implements funding strategies in accordance with the conservatism principle to diversify the funding sources and negotiate reasonable repayment periods to ensure continuing participation in the lending market, and maintains a close relationship with fund providers to strengthen financing channels and ensure the stability and reliability of fund sources.

d) To strengthen liquidity risk management, the Bank has regulations requiring the daily execution of risk management procedures and the monitoring of implementation to maintain sufficient liquidity.

e) The risk management units report the Bank's liquidity position to the Asset/Liability Management Committee monthly and report the Bank's liquidity risk management to the Board of Directors regularly.

3) The liquidity risk analysis of the cash inflow and outflow of assets and liabilities held for liquidity risk refers to the amounts of the obligations for the remaining maturity periods, i.e., from the reporting date to the contract maturity dates. The maturity analysis of financial assets and liabilities was as follows:

a) The maturity analysis of financial assets and liabilities

	December 31, 2014					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due after One Year	Total
Assets						
Cash and cash equivalents	$ 8,973,635	$ 105,021	$ 192,000	$ 206,000	$ -	$ 9,476,656
Due from the Central Bank and other banks	57,923,539	1,113,144	1,189,456	2,697,045	4,337,269	67,260,453
Financial assets at fair value through profit or loss	16,885,505	19,705	67,346	247,461	1,153,119	18,373,136
Securities purchased under resell agreements	25,552,820	797,761	-	-	-	26,350,581
Receivables	6,813,814	1,320,932	1,606,552	3,117,726	1,956,646	14,815,670
Available-for-sale financial assets	-	200,009	-	471,944	13,027,532	13,699,485
Discounts and loans	16,052,781	15,161,674	35,144,098	46,231,792	147,608,890	260,199,235
Held-to-maturity investments	-	-	27,276	-	493,990	521,266
Debt instruments with no active market	-	339,954	2,006,612	7,907,357	34,868,069	45,121,992
Financial assets carried at cost	-	-	-	-	515,451	515,451
Other financial assets - others	9,352,315	1,592,254	-	-	57,345	11,001,914
	141,554,409	20,650,454	40,233,340	60,879,325	204,018,311	467,335,839
Liabilities						
Call loans and due to banks	2,109,785	1,723,559	2,092,100	239,300	-	6,164,744
Financial liabilities at fair value through profit or loss	84,636	21,105	65,708	39,457	178	211,084
Securities sold under repurchase agreements	24,425,196	7,366,080	-	-	-	31,791,276
Payables	3,884,307	1,068,292	381,122	105,488	16,862	5,456,071
Deposits and remittance	36,634,933	45,579,871	61,507,310	101,328,175	151,360,143	396,410,432
Bank debentures	-	-	-	-	7,400,000	7,400,000
	67,138,857	55,758,907	64,046,240	101,712,420	158,777,183	447,433,607
Net liquidity gap	$ 74,415,552	$ (35,108,453)	$ (23,812,900)	$ (40,833,095)	$ 45,241,128	$ 19,902,232

	December 31, 2013					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due after One Year	Total
Assets						
Cash and cash equivalents	$ 7,190,960	$ 105,000	$ 192,000	$ 206,000	$ -	$ 7,693,960
Due from the Central Bank and other banks	61,998,949	969,979	1,144,980	2,438,450	4,321,694	70,874,052
Financial assets at fair value through profit or loss	7,985,111	1,458	320,998	298,856	1,256,834	9,863,257
Securities purchased under resell agreements	17,806,782	2,423,737	-	-	-	20,230,519
Receivables	5,540,820	1,982,917	2,128,634	3,387,032	979,459	14,018,862
Available-for-sale financial assets	50,039	-	219,282	726,956	7,503,915	8,500,192
Discounts and loans	14,243,314	11,881,784	29,415,816	42,537,260	134,588,854	232,667,028
Held-to-maturity investments	5,101	198,944	-	89,854	134,118	428,017
Debt instruments with no active market	-	133,356	402,136	2,394,048	45,587,170	48,516,710
	114,821,076	17,697,175	33,823,846	52,078,456	194,372,044	412,792,597
Liabilities						
Call loans and due to banks	106,832	-	2,000,000	2,817,779	-	4,924,611
Financial liabilities at fair value through profit or loss	5,902	3,105	2,828	4,171	-	16,006
Securities sold under repurchase agreements	17,504,555	7,078,102	-	-	-	24,582,657
Payables	2,653,349	859,693	525,690	110,613	18,803	4,168,148
Deposits and remittance	33,101,655	38,885,529	54,622,162	90,736,571	147,774,244	365,120,161
Bank debentures	-	-	-	-	7,400,000	7,400,000
	53,372,293	46,826,429	57,150,680	93,669,134	155,193,047	406,211,583
Net liquidity gap	$ 61,448,783	$ (29,129,254)	$ (23,326,834)	$ (41,590,678)	$ 39,178,997	$ 6,581,014

b) The maturity analysis of derivatives financial liabilities - forward exchange contracts and currency swap contracts

	December 31, 2014					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at gross amounts						
Cash outflow	$ 102,253,801	$ 1,879,357	$ 425,042	$ 137,374	$ -	$ 104,695,574
Cash inflow	102,172,972	1,897,756	430,151	134,831	-	104,635,710
Subtotal	80,829	(18,399)	(5,109)	2,543	-	59,864
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	-	-	-	-	-	-
	$ 80,829	$ (18,399)	$ (5,109)	$ 2,543	$ -	$ 59,864

	December 31, 2013					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at gross amounts						
Cash outflow	$ 5,303,323	$ 477,929	$ 414,710	$ 10,347	$ -	$ 6,206,309
Cash inflow	5,298,468	475,043	413,292	10,257	-	6,197,060
Subtotal	4,855	2,886	1,418	90	-	9,249
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	939	-	-	-	-	939
	$ 5,794	$ 2,886	$ 1,418	$ 90	$ -	$ 10,188

c) The maturity analysis of derivatives financial liabilities - option contracts

	December 31, 2014					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at net amounts	$ 1,361	$ 2,231	$ 53,641	$ 22,802	$ -	$ 80,035

	December 31, 2013					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at net amounts	$ -	$ -	$ -	$ -	$ -	$ -

e. Market risk

1) Source and definition of market risk

Market risk is defined as an unfavorable change in market prices (such as interest rates, exchange rates, stock prices and commodity prices), which may cause financial instruments classified in the trading book to give rise to a potential loss on or off the balance sheet.

2) Market risk management strategy and processes

The Bank implements the "Market Risk Management Standards of Union Bank of Taiwan," which had been approved by the Board of Directors, as the basis of market risk management.

The market risk management processes are risk identification, risk measurement, risk monitoring and control, risk reporting and risk mitigation.

a) Risk identification: For balance sheet and off-balance sheet items, the Bank identifies and assesses market risk factors of products and the investment business and subjects them to risk management, monitoring and control procedures.

b) Risk measurement: In principle, each investment or transaction has at least one risk measurement tool - such as sensitivity analysis, value at risk and stress testing, which can be applied to variables, such as fair market value and notional amounts, to quantify market risk.

c) Risk monitoring and control: Each operation unit observes the risk limit regulation stated in its operating manual and regularly monitors risk control. The department of risk management is responsible for summarizing and reporting the Bank's overall market risk monitoring.

d) Risk reporting: The risk management reports are classified as regular report, over-limit report and exception report. Regular reports are the management statements sent to the appropriate level in accordance with certain requirements. Over-limit reports are about situations in which risk limits are exceeded. Exception reports contain operation units' recommendations on how to meet temporary business needs.

e) Risk mitigation: An operation unit may take certain action to reduce risk, such as hedging, investment combination adjustment, position adjustment, setting a break-even point, halting new transactions, etc.

3) Market risk management framework

a) The Board of Directors: The Board of Directors, the Bank's top market risk supervisor, reviews risk management policies, operational risk limits and the design and change of the credit risk management framework.

b) Asset/Liability Management Committee: The Asset/Liability Management Committee inspects management reports or information provided by business units and the Risk Management Division.

c) Risk Management Division: The Risk Management Division is an independent unit in charge of the work related to three pillars of Basel and of the development of market risk management tools to assess and control the risk identified through setting risk limits.

d) Operation units: Operation units perform daily market risk management work and report the market risk of investment positions and related information to the authorities.

4) Market risk measurement, control and reporting

   a) The market risk of the trading book financial instruments is measured in accordance with the fair market value or evaluation model and the profit and loss situation is evaluated regularly.

   b) The business units and the risk management division prepares management reports periodically and report to the appropriate level.

   c) The market risk management system combines the evaluation of the front and middle offices to generate information that will assist management in risk monitoring. Moreover, the system supports the capital accrual method being used by the Bank through generating internal and external reports for management's decision, making.

5) Market risk measurement of trading book

   The Bank assesses the market risk exposure of the trading book in conformity with an assessment model using publicly quoted market prices or other measurement methods, including interest rate sensitivity analysis (DV01 value) and stress tests. The interest rate sensitivity analysis (DV01 value) refers to changes in market interest by 1 basis point (0.01%); the abnormal stress test system deals with market volatility and involves the regular estimation of possible losses (stress loss) and of the impact of stress test scenarios on major asset portfolios and the Bank's profit and loss.

6) Banking book market risk

   a) Interest rate risk

      The loans and deposits and other interest rate-related items in the Bank's balance sheet, including interest rate sensitive assets and interest rate sensitive liabilities, are measured from the viewpoint of earnings because there is a risk of decrease in earnings due to adverse changes in interest rates for loans and deposits.

      The earnings viewpoint mainly emphasizes the impact of interest rates on earnings, especially short-term earnings. For 2014 and 2013, assuming all market risk indicators, except interest rates, remained constant, an interest rate increase or decrease by 100bps would result in an increase or decrease in profit before tax by $219,359 thousand and $186,077 thousand, respectively.

   b) Exchange rate risk

      The exchange rate risk of the banking book refers to the business operation of the International Banking Department of the Bank's Head Office and the operating funds in foreign currencies required by the ROC or local regulations; if there are adverse exchange rate changes, the income statement or cumulative translation adjustments in equity would be negatively affected.

      The International Banking Department (IBD) of the Bank's Head Office is a going concern, and its operating funds are foreign currencies for business needs. However, the exchange rate risk on these funds is not significant because the percentage of the operating funds to the Bank's total assets is small, as shown by the immaterial ratio of the IBD's cumulative translation adjustment to the Banks' net worth.

7) Foreign currency rate risk information

The information on significant foreign financial assets and liabilities is as follows:

Unit: Each Foreign Currency (Thousands)/NT$ (Thousands)

	December 31, 2014		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 1,875,170	31.718	$ 59,476,642
JPY	4,658,552	0.2651	1,235,141
GBP	3,387	49.3564	167,189
AUD	88,267	25.9644	2,291,804
HKD	101,744	4.0897	416,106
CAD	9,239	27.3219	252,420
CNY	823,061	5.1034	4,200,390
SGD	1,826	23.9870	43,810
ZAR	668,814	2.7400	1,832,535
CHF	278	32.0546	8,921
THB	15	0.9641	15
NZD	21,799	24.8574	541,857
EUR	21,235	38.5532	818,663
Financial liabilities			
USD	1,498,559	31.718	47,531,279
JPY	6,576,426	0.2651	1,743,634
GBP	3,397	49.3564	167,644
AUD	87,872	25.9644	2,281,542
HKD	101,775	4.0897	416,235
CAD	9,324	27.3219	254,746
CNY	846,139	5.1034	4,318,164
SGD	1,810	23.9870	43,426
ZAR	668,576	2.7400	1,831,883
CHF	272	32.0546	8,725
NZD	21,795	24.8574	541,765
EUR	21,350	38.5532	823,129

	December 31, 2013		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 1,875,249	29.95	$ 56,163,708
JPY	4,374,934	0.2852	1,247,897
GBP	4,108	49.4984	203,339
AUD	88,478	26.7184	2,363,990
HKD	104,187	3.8626	402,435
CAD	10,579	28.13	297,587
CNY	289,469	4.9437	1,431,052

(Continued)

	December 31, 2013		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
SGD	$ 1,887	23.6871	$ 44,698
ZAR	782,339	2.8624	2,239,398
CHF	383	33.6554	12,890
THB	106	0.913	97
NZD	25,806	24.5979	634,774
EUR	16,513	41.2831	681,708
Financial liabilities			
USD	1,517,860	29.95	45,459,907
JPY	4,552,288	0.2852	1,298,486
GBP	4,094	49.4984	202,646
AUD	88,386	26.7184	2,361,532
HKD	103,774	3.8626	400,840
CAD	10,596	28.13	298,065
CNY	287,840	4.6797	1,347,005
SGD	1,870	23.6871	44,295
ZAR	782,213	2.8624	2,239,038
CHF	350	33.6554	11,779
NZD	25,836	24.5979	635,512
EUR	15,435	41.2831	637,204

(Concluded)

46. CAPITAL MANAGEMENT

a. Strategies to maintain capital adequacy

Under the regulations set by the authorities, the Bank complies with the requirements set each year for the minimum consolidated capital adequacy ratios, including the common equity Tier I capital ratio; the Bank's leverage ratio is also in accordance with the requirements of the relevant authorities. These ratios are applied in accordance with the regulations announced by the authorities.

b. Capital assessment program

The capital ratios and leverage ratios are applied, analyzed, monitored and reported regularly, and are assigned to each business unit as the target capital adequacy ratios. The business units' compliance with the ratio requirements is tracked regularly, and remedial action is taken if the capital and leverage ratio requirements are not met.

(Unit: In Thousands of New Taiwan Dollars, %)

Items (Note 2) \ Year			December 31, 2014 Own Capital Adequacy Ratio	December 31, 2014 Consolidated Capital Adequacy Ratio
Eligible capital	Common equity Tier Ratio		$ 26,380,471	$ 26,284,281
	Other Tier capital		-	-
	Tier capital		6,462,888	9,094,428
	Eligible capital		32,843,359	35,378,709
Risk-weighted assets	Credit risk	Standard	214,775,638	222,043,054
		Internal rating-based approach	-	-
		Asset securitization	1,262,627	1,262,627
	Operational risk	Basic indicator approach	15,555,738	17,986,163
		Standard/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standard	17,206,850	18,233,988
		Internal model approach	-	-
	Total risk-weighted assets		248,800,853	259,525,832
Capital adequacy rate			13.20	13.63
Ratio of common stockholders' equity to risk-weighted assets			10.60	10.13
Ratio of Tier 1 capital to risk-weighted assets			10.60	10.13
Leverage ratio			4.49	4.41

Note 1: Eligible capital and risk-weighted assets are calculated under the "Regulations Governing the Capital Adequacy Ratio of Banks" and the "Explanation of Methods for Calculating the Eligible Capital and Risk-weighted Assets of Banks."

Note 2: Formulas used were as follows:

1) Eligible capital = Common equity Tier 1 capital + Other Tier 1 capital + Tier 2 capital.

2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk x 12.5.

3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.

4) Ratio of Common equity Tier 1 capital to risk-weighted assets = Common equity Tier 1 capital ÷ Risk-weighted assets.

5) Ratio of Other Tier 1 capital to risk-weighted assets = Other Tier 1 capital ÷ Risk-weighted assets.

6) Leverage ratio = Common equity Tier 1 capital ÷ Exposure Measurement

(Unit: In Thousands of New Taiwan Dollars, %)

<table>
<tr><th colspan="3" rowspan="2">Year
Items (Note 2)</th><th colspan="2">December 31, 2013</th></tr>
<tr><th>Own Capital Adequacy Ratio</th><th>Consolidated Capital Adequacy Ratio</th></tr>
<tr><td rowspan="4">Eligible capital</td><td colspan="2">Common equity Tier 1 Ratio</td><td>$ 23,562,741</td><td>$ 23,436,734</td></tr>
<tr><td colspan="2">Other Tier 1 capital</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Tier 2 capital</td><td>6,624,701</td><td>9,229,142</td></tr>
<tr><td colspan="2">Eligible capital</td><td>30,187,442</td><td>32,665,876</td></tr>
<tr><td rowspan="9">Risk-weighted assets</td><td rowspan="3">Credit risk</td><td>Standard</td><td>190,948,228</td><td>199,611,322</td></tr>
<tr><td>Internal rating-based approach</td><td>-</td><td>-</td></tr>
<tr><td>Asset securitization</td><td>1,219,545</td><td>1,252,907</td></tr>
<tr><td rowspan="3">Operational risk</td><td>Basic indicator approach</td><td>15,405,625</td><td>17,706,850</td></tr>
<tr><td>Standard/alternative standardized approach</td><td>-</td><td>-</td></tr>
<tr><td>Advanced measurement approach</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Market risk</td><td>Standard</td><td>9,234,588</td><td>10,280,113</td></tr>
<tr><td>Internal model approach</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Total risk-weighted assets</td><td>216,807,986</td><td>228,851,192</td></tr>
<tr><td colspan="3">Capital adequacy rate</td><td>13.92</td><td>14.27</td></tr>
<tr><td colspan="3">Ratio of common stockholders' equity to risk-weighted assets</td><td>10.87</td><td>10.24</td></tr>
<tr><td colspan="3">Ratio of Tier 1 capital to risk-weighted assets</td><td>10.87</td><td>10.24</td></tr>
<tr><td colspan="3">Leverage ratio</td><td>4.47</td><td>4.38</td></tr>
</table>

Note 1: Eligible capital and risk-weighted assets are calculated under the "Regulations Governing the Capital Adequacy Ratio of Banks" and the "Explanation of Methods for Calculating the Eligible Capital and Risk-weighted Assets of Banks."

Note 2: Formulas used were as follows:

1) Eligible capital = Tier 1 capital + Tier 2 capital + Tier 3 capital.

2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk x 12.5.

3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.

4) Ratio of Tier 1 capital to risk-weighted assets = Tier 1 capital ÷ Risk-weighted assets.

5) Ratio of Tier 2 capital to risk-weighted assets = Tier 2 capital ÷ Risk-weighted assets.

6) Ratio of Tier 3 capital to risk-weighted assets = Tier 3 capital ÷ Risk-weighted assets.

7) Ratio of common stock to total assets = Common stock ÷ Total assets.

8) Leverage ratio = Tier 1 capital ÷ Adjusted average assets (average assets minus goodwill, unamortized loss from the sale of nonperforming loans, and items to be subtracted from Tier 1 capital which are covered by the "Explanation of Methods for Calculating the Eligible Capital and Risk-weighted Assets of Banks."

The Banking Law and related regulations require that the Bank maintain its unconsolidated and consolidated CARs at a minimum of 8.0%, the Tier 1 Capital Ratio at a minimum of 5.5% and the Common Equity Tier 1 Ratio at a minimum of 4.0%. In addition, if the Bank's CAR falls below the minimum requirement, the authorities may impose certain restrictions on the amount of cash dividends that the Bank can declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends.

47. ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Union Bank of Taiwan

a. Credit risk

1) Asset quality

See Table 6.

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

December 31, 2014			
Rank (Note 1)	**Company Name**	**Credit Extension Balance**	**% to Net Asset Value**
1	Group F - manufacture of chemical material	$ 3,650,000	11.39
2	Group O - financial intermediation	2,515,000	7.85
3	Group D - real estate development	2,230,604	6.96
4	Company B - other financial intermediation	1,844,941	5.76
5	Company K - real estate development	1,765,000	5.51
6	Group U - real estate development	1,495,500	4.67
7	Company J - other financial intermediation	1,000,000	3.12
8	Company Z - real estate development	820,000	2.56
9	Company E - real estate development	680,000	2.12
10	Company L - telephone and manufacturing	634,360	1.98

(In Thousands of New Taiwan Dollars, %)

December 31, 2013			
Rank (Note 1)	**Company Name**	**Credit Extension Balance**	**% to Net Asset Value**
1	Company B - other financial intermediation	$ 2,167,788	7.63
2	Group O - financial intermediation	1,658,000	5.83
3	Company K - real estate development	1,455,000	5.12
4	Group F - manufacture of chemical material	1,453,022	5.11
5	Group U - real estate development	1,133,140	3.99
6	Company Z - real estate development	820,000	2.88
7	Company D - real estate development	707,330	2.49
8	Company H - retail sale of other food and beverages	600,800	2.11
9	Company L - telephone and cellular phone manufacturing	599,000	2.11
10	Company G - renting and leasing of other transport equipment	588,750	2.07

b. Market risk

Interest Rate Sensitivity
December 31, 2014

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 341,924,166	$ 6,026,273	$ 6,993,835	$ 28,252,745	$ 383,197,019
Interest rate-sensitive liabilities	183,108,590	132,939,459	56,783,846	14,285,834	387,117,729
Interest rate-sensitive gap	158,815,576	(126,913,186)	(49,790,011)	13,966,911	(3,920,710)
Net worth					22,688,214
Ratio of interest rate-sensitive assets to liabilities					98.99%
Ratio of interest rate sensitivity gap to net worth					(17.28%)

December 31, 2013

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 310,119,147	$ 4,874,228	$ 9,110,013	$ 19,943,749	$ 344,047,137
Interest rate-sensitive liabilities	159,009,333	122,146,689	52,011,556	16,946,983	350,114,561
Interest rate-sensitive gap	151,109,814	(117,272,461)	(42,901,543)	2,996,766	(6,067,424)
Net worth					19,305,784
Ratio of interest rate-sensitive assets to liabilities					98.27%
Ratio of interest rate sensitivity gap to net worth					(31.43%)

Note 1: The above amounts included only New Taiwan dollar amounts held by the Bank's Head Office and branches (i.e., excluding foreign currency).

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities (in New Taiwan dollars).

Interest Rate Sensitivity
December 31, 2014

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 501,353	$ 86,078	$ 256,094	$ 1,318,138	$ 2,161,663
Interest rate-sensitive liabilities	1,110,726	518,695	227,248	-	1,856,669
Interest rate-sensitive gap	(609,373)	(432,617)	28,846	1,318,138	304,994
Net worth					340,456
Ratio of interest rate-sensitive assets to liabilities					116.43%
Ratio of interest rate sensitivity gap to net worth					89.58%

December 31, 2013

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 203,657	$ 54,156	$ 81,256	$ 1,648,049	$ 1,987,118
Interest rate-sensitive liabilities	1,029,522	413,099	245,649	-	1,688,270
Interest rate-sensitive gap	(825,865)	(358,943)	(164,393)	1,648,049	298,848
Net worth					344,770
Ratio of interest rate-sensitive assets to liabilities					117.70%
Ratio of interest rate sensitivity gap to net worth					86.68%

Note 1: The above amounts included only U.S. dollar amounts held by the Bank's Head Office, domestic branches, OBU and overseas branches and excluded contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities (in U.S. dollars)

c. Liquidity risk

1) Profitability

(%)

Items		Year Ended December 31	
		2014	2013
Return on total assets	Before income tax	0.80	0.79
	After income tax	0.67	0.68
Return on equity	Before income tax	12.16	12.50
	After income tax	10.23	10.74
Net income ratio		34.96	33.82

Note 1: Return on total assets = Income before (after) income tax ÷ Average total assets

Note 2: Return on equity = Income before (after) income tax ÷ Average equity

Note 3: Net income ratio = Income after income tax ÷ Total net revenues

Note 4: Income before (after) income tax represents income for the years ended December 31, 2014 and 2013.

2) Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities
December 31, 2014

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 418,547,928	$ 136,874,790	$ 18,241,065	$ 37,960,366	$ 58,060,030	$ 167,411,677
Main capital outflow on maturity	523,943,968	68,899,444	64,337,213	76,586,325	130,924,133	183,196,853
Gap	(105,396,040)	67,975,346	(46,096,148)	(38,625,959)	(72,864,103)	(15,785,176)

December 31, 2013

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 376,406,219	$ 121,158,363	$ 17,247,970	$ 32,611,679	$ 52,610,070	$ 152,778,137
Main capital outflow on maturity	433,976,847	42,714,593	37,825,509	45,500,635	93,957,585	213,978,525
Gap	(57,570,628)	78,443,770	(20,577,539)	(12,888,956)	(41,347,515)	(61,200,388)

Note: The above amounts are book value held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance sheet amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

Maturity Analysis of Assets and Liabilities
December 31, 2014

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 3,041,730	$ 1,120,262	$ 202,175	$ 92,699	$ 261,342	$ 1,365,252
Main capital outflow on maturity	3,041,680	1,287,046	526,655	653,823	233,672	340,484
Gap	50	(166,784)	(324,480)	(561,124)	27,670	1,024,768

December 31, 2013

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 2,509,198	$ 638,507	$ 29,290	$ 55,522	$ 91,098	$ 1,694,781
Main capital outflow on maturity	2,509,115	983,840	405,951	527,642	246,912	344,770
Gap	83	(345,333)	(376,661)	(472,120)	(155,814)	1,350,011

Note: The above amounts are book value of the assets and liabilities held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

48. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau for the Bank and its investees:

a. Related information of significant transactions and investees and (b) proportionate share in investees:

1) Financing provided to other parties: The Bank - not applicable; investee - Table 1 (attached)

2) Endorsement/guarantee provided: The Bank - not applicable; investee - Table 2 (attached)

3) Marketable securities held: The Bank - not applicable; investee - Table 3 (attached)

4) Marketable securities acquired and disposed of at costs or prices of at least $300 million or 10% of the paid-in capital: None

5) Acquisition of individual real estate at costs of at least $300 million or 10% of the paid-in capital: The Bank - none; investee - Table 4 (attached)

6) Disposal of individual real estate at costs of at least $300 million or 10% of the paid-in capital: None

7) Allowance of service fees to related parties amounting to at least $5 million: None

8) Receivables from related parties amounting to at least $300 million or 10% of the paid-in capital: None

9) Sale of nonperforming loans: Table 5 (attached)

10) Asset securitization under the "Regulations for Financial Asset Securitization": None

11) Other significant transactions which may affect the decisions of users of financial reports: Table 6 (attached)

12) Names, locations and other information of investees on which the Bank exercises significant influence: Table 7 (attached)

13) Derivative transactions: Note 8

b. Investment in Mainland China: None

49. INFORMATION SEGMENTS

The Bank has disclosed the segment information in the consolidated financial statements. Thus, no segment information is presented herein.

TABLE 1

UNION BANK OF TAIWAN

LOANS PROVIDED TO OTHER PARTIES
FOR THE YEAR ENDED DECEMBER 31, 2014
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit
												Item	Value		
1	Union Financial and Leasing International Corporation	Union Capital (Cayman) Corp.	Affiliates of receivable	$ 587,616 (JPY 2,216,300)	$ 496,145 (JPY 1,871,300)	$ 496,145 (JPY 1,871,300)	1.5	Short-term financing	$ -	Purchase operating leasing assets	$ -	-	$ -	$ 917,737	$ 917,737
2	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Affiliates of receivable	962,833 (JPY 3,630,300 US$ 10)	962,833 (JPY 3,630,300 US$ 10)	962,833 (JPY 3,630,300 US$ 10)	1.5	Short-term financing	-	Purchase operating leasing assets	-	-	-	2,294,342	2,294,342
3	Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Affiliates of receivable	368,125 (JPY 1,388,450)	368,125 (JPY 1,388,450)	368,125 (JPY 1,388,450)	1.50-2.75	Short-term financing	-	Purchase operating leasing assets	-	-	-	2,294,342	2,294,342

TABLE 2

UNION BANK OF TAIWAN

ENDORSEMENTS/GUARANTEES PROVIDED
DECEMBER 31, 2014
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance for the Year	Ending Balance	Actual Borrowing Amount	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity Per the Latest Financial Statements	Aggregate Endorsement/ Guarantee Limit	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
1	Union Capital (Cayman) Corp.	Union Finance and Leasing International Corporation	Subsidiary	$ 464,740	$ 400,000	$ -	$ -	$ -	-	$ 464,740	N	Y	N

UNION BANK OF TAIWAN

MARKETABLE SECURITIES HELD
DECEMBER 31, 2014
(In Thousands of New Taiwan Dollars and Foreign Currency, Unless Stated Otherwise)

Holding Company	Type and Issuer/ Name of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2014				Note
				Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Union Finance and Leasing International Corporation	Stock							
	Masterlink Securities Corporation.	-	Available-for-sale financial assets	882	$ 8,820	0.06	$ 8,820	Note 4
	China Chemical Corporation	-	Available-for-sale financial assets	356	7,271	0.12	7,271	Note 4
	Taiwan Life Insurance Co., Ltd.	-	Available-for-sale financial assets	2,593	48,626	0.25	48,626	Note 4
	Union Capital (Cayman) Corp.	Subsidiary	Equity investment - equity method	50	464,740	100.00	464,740	Note 1
	New Asian Ventures Ltd.	Subsidiary	Equity investment - equity method	-	79,986	100.00	79,986	Note 1
	ERA Communications Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33	7,009	Note 1
	Beneficial certificates							
	Union Advantage Global FI Portfolio Fund	-	Available-for-sale financial assets	5,074	78,481	-	78,481	-
	Union Emerge Res-rich Countries HYBd B	-	Available-for-sale financial assets	5,898	56,730	-	56,730	-
Union Information Technology Corporation	Stock							
	ELTA Technology Co., Ltd.	-	Unquoted equity instruments	2,382	23,240	15.88	34,164	Note 3
Union Securities Investment Trust Corporation (USITC)	Beneficial certificates							
	Union Advantage Global FI Portfolio Fund	-	Financial assets at fair value through profit or loss	1,068	16,516	-	16,516	-
	The RSIT Enhanced Money Market	-	Financial assets at fair value through profit or loss	1,297	15,254	-	15,254	-
	Union Emerging Asia Bond A	-	Financial assets at fair value through profit or loss	486	5,285	-	5,285	-
	Union Money Market	-	Financial assets at fair value through profit or loss	1,459	18,940	-	18,940	-
	Union Golden Balance Fund	-	Financial assets at fair value through profit or loss	575	8,643	-	8,643	-
	Union Emerg Res-rich Countries HYBd A	-	Financial assets at fair value through profit or loss	800	8,116	-	8,116	-
	Union China	-	Financial assets at fair value through profit or loss	1,006	19,106	-	19,106	-
	Union Technology Fund	-	Financial assets at fair value through profit or loss	1,460	13,404	-	13,404	-
	Union APEC Balanced A	-	Financial assets at fair value through profit or loss	1,001	10,686	-	10,686	-
Union Finance International (HK) Limited	Bond							
	HBOS Capital Funding LP	-	Available-for-sale financial assets	900	US$ 905	-	US$ 905	-
	PHBS Ltd.	-	Available-for-sale financial assets	500	US$ 487	-	US$ 487	-
	Stock							
	ING Group N.V.	-	Available-for-sale financial assets	33	US$ 847	-	US$ 847	Note 4
	Apple Computer Inc.	-	Financial assets at fair value through profit or loss	3	US$ 500	-	US$ 500	Note 4
	Merck & Co., Inc.	-	Financial assets at fair value through profit or loss	12	US$ 500	-	US$ 500	Note 4
	EBAY Inc.	-	Financial assets at fair value through profit or loss	14	US$ 500	-	US$ 500	Note 4
	Penn West Energy	-	Financial assets at fair value through profit or loss	119	US$ 2,111	-	US$ 2,111	Note 4

(Continued)

Holding Company	Type and Issuer/ Name of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2014				Note
				Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
New Asian Ventures Ltd.	Stock							
	Grace T.H.W. Holding Limited	-	Unquoted equity instruments	1,667	$ 64,320	0.81	US$ 2,800	Note 2
Union Capital (Cayman) Corp.	Beneficial certificates							
	Union Capital (Singapore) Holding PTE. LTD.	-	Equity investment - equity method	-	JPY (10,690)	100.00	JPY (10,690)	Note 5
Union Capital (Singapore) Holding PTE. LTD.	Beneficial certificates							
	Kabushiki Kaisha UCJ1	-	Equity investment - equity method	9	JPY 457,152	100.00	JPY 457,152	Note 5
	Tokutei Mokuteki Kaisha SSG15	-	Equity investment - equity method	-	JPY 1,776,951	49.00	JPY 1,776,951	Notes 5 and 6
Kabushiki Kaisha UCJ1	Beneficial certificates							
	Tokutei Mokuteki Kaisha SSG15	-	Equity investment - equity method	Preferred stock 37	JPY 1,849,272	51.00	JPY 1,849,272	Note 5

The Bank's investees had investments in companies with shares having no quoted market prices. The net asset values of these companies were based on the following:

Note 1: Union Finance and Leasing International Corporation:

a. ERA Communications Co., Ltd. - the audited statements of stockholders' equity as of December 31, 2013.
b. New Asian Ventures Ltd. and Union Capital (Cayman) Corp. - the audited statements of stockholders' equity as of December 31, 2014.

Note 2: New Asian Ventures Ltd.:

Grace T.H.W. Holding Limited - unaudited statements of stockholders' equity as of December 31, 2014.

Note 3: Union Information Technology Corporation:

ELTA Technology Co., Ltd. - unaudited statements of stockholders' equity as of December 31, 2014.

Note 4: The market values of the listed and OTC stocks included in financial assets at fair value through profit or loss and available-for-sale financial assets were based on the daily closing prices as of balance sheet date. The market values of beneficial certificates were based on net asset values as of the balance sheet date.

Note 5: Union Capital (Singapore) Holding PTE. LTD. and Kabushiki Kaisha UCJ1 - unaudited statements of stockholders' equity as of September 30, 2014. Tokutei Mokuteki Kaisha SSG15 - audited statements of stockholders' equity as of September 30, 2014.

Note 6: Common stock 4 shares and preferred stock 36 thousand shares.

(Concluded)

UNION BANK OF TAIWAN

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST $300 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2014
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is a Related Party				Pricing Reference (Note 1)	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
Tokutei Mokuteki Kaisha SSG15	Investment property - land and buildings	2014.9.17	JPY 3,450,000	JPY 3,450,000	合同會社せ-ス	Non-relate	N	N	N	$ -	By appraisal report	Operating leasing assets	Note 2

Note 1: The appraisal amount of the investment property was JPY3,620,000 thousand and JPY3,520,000, based on the valuations made by different independent qualified professional appraisers.

Note 2: In a real estate securitized preferred stock issued by Tokutei Mokuteki Kaisha SSG15, Union Capital (Singapore) Holding PTE. LTD. (owned by Union Capital (Cayman) Corp.) and Kabushiki Kaisha UCJ invested JPY1,778,900 thousand and JPY1,851,300 thousand, respectively, and acquired equity interests of 49% and 51%, respectively.

UNION BANK OF TAIWAN

SALE OF NONPERFORMING LOANS
DECEMBER 31, 2014
(In Thousands of New Taiwan Dollars)

Transaction Date	Transaction Partners	Composition of Creditor's Right	Carrying Value (Note 1)	Sale Price	Disposal Loss (Note 2)	Collateral	Relationship
2014.04.17	Deutsche Bank AG London Branch	Business loan	$ 211,138	$ 180,567	$ (30,571)	-	-
	Bank of America, National Association	Business loan	234,388	198,761	(35,627)	-	-

Note 1: Carrying value was original amount of credit reduced by allowance for credit loss.

Note 2: Include exchange loss.

UNION BANK OF TAIWAN

ASSET QUALITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars, %)

Period			December 31, 2014				
Items			Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate banking	Secured		$ 91,241	$ 68,956,431	0.13%	$ 1,267,128	1,020.89%
	Unsecured		32,878	53,812,643	0.06%		
Consumer banking	Housing mortgage (Note 4)		58,055	113,818,594	0.05%	1,079,016	1,858.61%
	Cash card		1,508	116,389	1.30%	4,697	311.47%
	Small scale credit loans (Note 5)		23,240	8,851,061	0.26%	83,909	361.05%
	Other (Note 6)	Secured	16,587	12,440,740	0.13%	132,364	795.36%
		Unsecured	55	2,203,377	-		
Loan			223,564	260,199,235	0.09%	2,567,114	1,148.27%
			Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables	Allowance for Possible Losses	Coverage Ratio
Credit cards			33,603	12,611,962	0.27%	123,019	366.10%
Accounts receivable factored without recourse (Note 7)			-	-	-	-	-

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans."
Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.
Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.
Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Not reported as nonperforming loans or nonperforming receivables

Items / Types	December 31, 2014	
	Not Reported as Nonperforming Loans	Not Reported as Nonperforming Receivables
Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	$ 106,998	$ 451,394
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	59,687	926,859
Total	166,685	1,378,253

Note 1: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: Amounts of discharged and executed contracts on clearance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940).

(Continued)

Period			December 31, 2013				
Items			Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate banking	Secured		$ 558,269	$ 64,031,114	0.87%	$ 1,125,846	194.43%
	Unsecured		20,794	39,655,589	0.05%		
Consumer banking	Housing mortgage (Note 4)		49,239	110,096,437	0.04%	1,195,443	2,427.84%
	Cash card		4,863	163,041	2.98%	9,280	190.83%
	Small scale credit loans (Note 5)		19,482	6,996,991	0.28%	75,974	389.97%
	Other (Note 6)	Secured	21,204	10,037,162	0.21%	117,893	540.37%
		Unsecured	613	1,686,694	0.04%		
Loan			674,464	232,667,028	0.29%	2,524,436	374.29%
			Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables	Allowance for Possible Losses	Coverage Ratio
Credit cards			40,506	11,695,827	0.35%	133,906	330.58%
Accounts receivable factored without recourse (Note 7)			-	-	-	-	-

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans."
Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.
Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.
Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Not reported as nonperforming loans or nonperforming receivables

Types \ Items	December 31, 2013	
	Not Reported as Nonperforming Loans	Not Reported as Nonperforming Receivables
Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	$ 143,389	$ 608,707
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	67,241	992,419
Total	210,630	1,601,126

Note 1: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: Amounts of discharged and executed contracts on clearance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940).

(Concluded)

UNION BANK OF TAIWAN

INFORMATION ON AND PROPORTIONATE SHARE IN INVESTEES
DECEMBER 31, 2014
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Businesses and Products	Percentage of Ownership (%)	Carrying Value	Investment Gain (Loss)	Proportionate Share of the Bank and Its Subsidiaries in Investees				Note
						Shares (Thousands)	Pro Forma Shares (Note 2)	Total		
								Shares (Thousands)	Percentage of Ownership (%)	
Financial-related										
Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00	$ 2,294,342	$ 122,329	83,000	-	83,000	100.00	Note 1
Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99	81,269	1,699	30,000	-	30,000	99.99	Note 1
Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00	144,819	15,987	10,500	-	10,500	35.00	Note 1
Union Insurance Broker Company	Taipei	Personal insurance agency	100.00	25,237	10,802	500	-	500	100.00	Note 1
Union Information Technology Corporation	Taipei	Software and hardware product retail and distribution services	99.99	16,468	9,288	1,000	-	1,000	99.99	Note 1
Ipass Corporation	Kaohsiung	IC card	17.52	123,320		13,000	-	13,000	17.52	
Taiwan Gin Lian Asset Management Corporation	Taipei	Purchase, sale and management of nonperforming loans from financial institutions	0.57	75,000		7,500	-	7,500	0.57	
Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94	50,000		5,000	-	5,000	2.94	
Huan Hua Securities Finance Co.	Taipei	Securities finance	0.53	20,055		2,103	-	2,103	0.53	
Sunny Asset Management Co.	Taipei	Purchase, sell and manage nonperforming loans from financial institution	6.44	3,864		386	-	386	6.44	
Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81	2,113		160	-	160	0.81	
Financial Information Service Co., Ltd.	Taipei	Information service	2.39	118,782		10,774	-	10,774	2.39	
Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.25	13,916		815	-	815	0.24	
Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.08	71,250		5,906	-	5,906	2.08	
Taiwan Mobile Payment Corporation	Taipei	International trade, data processing service	1.10	6,000		600	-	600	1.10	
Nonfinancial-related										
Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00	54,183	(111)	2,000	-	2,000	40.00	Note 1
Fu Hua Venture Corporation	Taipei	Investments	5.00	16,452		1,650	-	1,650	5.00	
Jiao Da Venture Corporation	Taipei	Investment	5.00	637		134	-	134	5.00	
Li Yu Venture Corporation	Taipei	Investment	4.76	6,437	-	855	-	855	4.76	
Lian An Service Corporation	Taipei	Security service	5.00	1,501	-	125	-	125	5.00	
Taiwan Power Corporation	Taipei	Electricity-related business	0.0012	6,124	-	395	-	395	0.0012	

Note 1: The investees' information shown above is based on audited financial reports as of December 31, 2014.

Note 2: Pro forma shares are considered if equity securities - convertible bonds, warrants, etc. - or derivative contracts such as stock options, are converted to shares.