8.4 Liquidity Risk

(1) Sources and definition of liquidity risk

The Bank and subsidiaries define liquidity risk as the potential financial loss that may be suffered by the Bank and subsidiaries as a result of inability to liquidate assets or obtain the finances required to meet financial obligations that are falling due. Examples include prepayment of deposits, channels through which and conditions under which the Bank is able to obtain inter-bank loans have deteriorated or become more difficult due to specific market conditions, borrower's default status deteriorated and funds are not repaid according to schedule and difficulty in liquidating investments. Circumstances described above may reduce the level of the Bank's available cash to conduct business activities such as extension of loans or trading and investments. Under extreme circumstances, illiquidity may potentially cause an overall decrease in the Bank's balance-sheet positions, disposal of assets or inability to carry out loan commitments. Liquidity risk is inherent in the bank operations and may be affected by industry-specific or market events. The events include but not limited to: credit event, merger or acquisition, systematic shock and natural disaster.

(2) Liquidity risk management policy

With the aim of maintaining long-term profitability and business growth, the Bank and subsidiaries adopt a management strategy that is in between the pro-active and passive approach to manage the liquidity of our NTD funds. The following benchmarks are used to evaluate and monitor the liquidity level of the Bank's NTD funds:

A. Cashflow gap for obligations falling due within 30 days (incl.).

B. Cashflow gap for all other maturities.

C. Provide a deposit reserve in accordance with the regulatory ratio prescribed by the Central Bank.

D. Liquidity reserve shall not fall below the minimum liquid assets to liabilities ratio for financial institutions prescribed by the Central Bank.

E. Deposit to loan ratio.

F. Liabilities purchased (NCD issued) to deposits ratio.

The following benchmarks are used to evaluate and monitor the liquidity level of the Bank's major currency funds:

A. Liquidity gap for the respective maturities to total assets ratio.

B. Deposit reserve ratio provided in accordance with the Central Bank requirements.

The Risk Management Department examines the benchmark statistics on a month basis and reports such information to the Assets-Liabilities and Risk Management Committee for presentation a quarterly basis to the Board of Directors for approval. The Bank shall also establish respective limits applicable to call loans to other banks and inter-bank loans from other banks and review the limits once a year to enhance the liquidity level.

(3) Maturity analysis of financial assets and non-derivative financial liabilities held for liquidity management

A. Financial assets held for liquidity management

The Bank and subsidiaries hold cash and highly liquid, premium assets to meet payment obligations and potential emergency liquidity needs arising from market conditions. Assets held to manage liquidity risk include: cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets and investment in bonds with no active market.

B. Maturity analysis of financial liabilities

The analysis of cash outflows associated with non-derivative financial liabilities of the Bank and subsidiaries is made according to the number of days remaining from the balance sheet date to the respective contract's maturity date. The amounts disclosed below were prepared on the basis of the cash flows arising from the contracts and as such may not correspond to the amounts of related items presented on the balance sheet.

December 31, 2014	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year	Total
Due to central bank and other banks	7,219,017	1,533,070	56,670	710,372	—	9,519,129
Bills and bonds sold under agreements to repurchase	4,022	57,099	—	—	—	61,121
Accounts payable	2,421,343	288,083	40,381	89,335	32,921	2,872,063
Deposits and remittances	34,551,854	38,125,086	37,888,947	47,347,017	79,014,547	236,927,451
Bank debentures	—	—	—	—	7,000,000	7,000,000
Other capital outflow upon maturity	11,071	2,272	4,577	9,885	950,848	978,653

December 31, 2013	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year	Total
Due to central bank and other banks	9,544,713	4,552,260	205,920	721,772	—	15,024,665
Bills and bonds sold under agreements to repurchase	11,205	42,384	14,430	—	—	68,019
Accounts payable	2,523,367	80,433	51,023	63,409	28,987	2,747,219
Deposits and remittances	23,307,465	28,942,507	28,133,142	46,824,997	71,481,833	198,689,944
Bank debentures	—	—	1,000,000	—	5,000,000	6,000,000
Other capital outflow upon maturity	91,523	77,778	6,092	16,770	882,152	1,074,315

The maturity analysis of demand deposits included in "Deposits and Remittances" in the above table is conducted across different maturity periods based on the past experience of the Bank and subsidiaries. Based on the assumption that all demand deposits must be repaid within the closest maturity, as of December 31, 2014 and 2013, cash outflow in the next the 0~30 days will increase by $89,994,044 thousand and $73,513,518 thousand, respectively.

(4) Maturity analysis of derivative financial liabilities

Derivatives settled in gross amounts

The Bank and subsidiaries settle the following derivative instruments on gross amounts:

- Foreign exchange derivatives: foreign exchange futures and swaps;
- Interest rate derivatives: currency swap;
- Credit derivatives: all credit default swaps are represented in gross amounts. Periodic payments are made to the buyer of the credit guarantee. A lump-sum payment is made to the buyer of the credit guarantee when a credit risk event occurs.

The Bank's and subsidiaries' derivative instruments settled in gross amounts are presented in the following table according to the days remaining from the balance sheet date to the respective contract's maturity date. Upon evaluation, a contract's maturity date is fundamental in understanding all derivative instruments presented on the balance sheet. The amounts disclosed below were prepared on the basis of the cash flows arising from the contracts and as such may not correspond to the amounts of related items presented on the balance sheet. The maturity of derivative financial liabilities settled in gross amounts is analyzed as follows:

December 31, 2014	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year	Total
Financial liabilities at fair value through profit or loss						
－Foreign exchange derivatives	1,441,494	2,111,372	1,904,887	—	—	5,457,753
－Cash outflow	723,801	1,055,218	962,409	—	—	2,741,428
－Cash inflow	717,693	1,056,154	942,478	—	—	2,716,325
－Interest rate derivatives	—	—	—	—	—	—
－Cash outflow	—	—	—	—	—	—
－Cash inflow	—	—	—	—	—	—
Derivative financial liabilities for hedging purpose						
－ Foreign exchange derivatives	—	—	—	—	—	—
－Cash outflow	—	—	—	—	—	—
－Cash inflow	—	—	—	—	—	—
－Interest rate derivatives	—	—	—	—	—	—
－Cash outflow	—	—	—	—	—	—
－Cash inflow	—	—	—	—	—	—
Cash outflow subtotal	723,801	1,055,218	962,409	—	—	2,741,428
Cash inflow subtotal	717,693	1,056,154	942,478	—	—	2,716,325
Net cashflow	6,108	(936)	19,931	—	—	25,103

December 31, 2013	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year	Total
Financial liabilities at fair value through profit or loss						
－Foreign exchange derivatives	418,189	2,372,897	19,804	－	－	2,810,890
－Cash outflow	208,980	1,188,854	9,872	－	－	1,407,706
－Cash inflow	209,209	1,184,043	9,932	－	－	1,403,184
－Interest rate derivatives	－	－	－	－	－	－
－Cash outflow	－	－	－	－	－	－
－Cash inflow	－	－	－	－	－	－
Derivative financial liabilities for hedging purpose						
－ Foreign exchange derivatives	－	－	－	－	－	－
－Cash outflow	－	－	－	－	－	－
－Cash inflow	－	－	－	－	－	－
－Interest rate derivatives	－	－	－	－	－	－
－Cash outflow	－	－	－	－	－	－
－Cash inflow	－	－	－	－	－	－
Cash outflow subtotal	208,980	1,188,854	9,872	－	－	1,407,706
Cash inflow subtotal	209,209	1,184,043	9,932	－	－	1,403,184
Net cashflow	(229)	4,811	(60)	－	－	4,522

(5) Maturity analysis of off-balance-sheet items

The maturity analysis of off-balance sheet items of the Bank and subsidiaries shows the days remaining from the balance sheet date to the maturity date. For financial guarantee contracts that were issued, the maximum guarantee amounts that may be claimed were included in the nearest maturity period. The amounts disclosed below were prepared on the basis of the cash flows arising from the contracts and as such may not correspond to the amounts of related items presented on the balance sheet.

December 31, 2014	Under 1 year	1 – 5 year	More than 5 years	Total
Standby and irrevocable loan commitment	2,819,140	6,731,154	196,733	9,747,027
Standby and irrevocable credit card commitment	1,885	4,244	－	6,129
Unused letter of credit	1,377,645	－	－	1,377,645
Guarantees	2,515,912	1,194,149	1,794,361	5,505,422
Total	6,714,582	7,929,547	1,991,094	16,635,223

December 31, 2013	Under 1 year	1 – 5 year	More than 5 years	Total
Standby and irrevocable loan commitment	1,013,385	6,817,303	1,800,442	9,631,130
Standby and irrevocable credit card commitment	199	6,413	－	6,612
Unused letter of credit	1,357,740	－	－	1,357,740
Guarantees	2,442,426	1,679,755	6,500	4,128,681
Total	4,813,750	8,503,471	1,806,942	15,124,163

(6) Maturity analysis of lease agreement and capital expenditure commitments

The lease agreement commitments of the Bank and subsidiaries are of operating lease commitments, which refer to the total minimum rents payable to the lessor by the Bank and subsidiaries, the lessee, under irrevocable operating lease terms and conditions.

The Bank's and subsidiaries' capital expenditure commitments refer to the agreement signed by the Bank and subsidiaries to obtain the capital required for acquiring building and equipment.

The maturity analysis of the Bank's and subsidiaries' lease and capital expenditure commitments is as follows:

December 31, 2014	Under 1 year	1 – 5 year	More than 5 years	Total
Lease agreement commitment				
Operating lease outflow (lessee)	$77,635	$209,331	$37,659	$324,625
Operating lease inflow (lessor)	8,650	35,364	7,453	51,467
Capital expenditure commitment	$ —	$ —	$ —	$ —

December 31, 2013	Under 1 year	1 – 5 year	More than 5 years	Total
Lease agreement commitment				
Operating lease outflow (lessee)	$75,311	$202,797	$37,789	$315,897
Operating lease inflow (lessor)	4,283	4,099	—	8,382
Capital expenditure commitment	$ —	$ —	$ —	$ —

(7) Information disclosed in accordance with the "Regulations Governing the Preparation of Financial Statements by Public Banks"

A. The maturity structure of the Bank and subsidiaries' NTD capital

December 31, 2014							
	Total	0~10 days	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	246,869,929	46,020,517	37,278,012	14,181,404	15,276,254	30,097,694	104,016,048
Main maturing capital outflow	307,469,927	11,831,606	23,048,094	40,406,958	42,461,336	59,263,191	130,458,742
Maturity gap	(60,599,998)	34,188,911	14,229,918	(26,225,554)	(27,185,082)	(29,165,497)	(26,442,694)

December 31, 2013							
	Total	0~10 days	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	213,665,218	28,191,508	24,749,646	19,706,644	13,843,937	37,885,442	89,288,041
Main maturing capital outflow	271,447,659	10,833,954	16,066,743	31,610,143	34,306,027	59,560,720	119,070,072
Maturity gap	(57,782,441)	17,357,554	8,682,903	(11,903,499)	(20,462,090)	(21,675,278)	(29,782,031)

B. Maturity gap of the Bank and subsidiaries' USD capital

Unit: US$ Thousand

December 31, 2014						
	Total	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	606,589	85,190	76,598	47,332	65,861	331,608
Main maturing capital outflow	841,582	283,860	163,553	140,341	126,119	127,709
Maturity gap	(234,993)	(198,670)	(86,955)	(93,009)	(60,258)	203,899

December 31, 2013						
	Total	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	578,226	62,754	64,143	43,304	63,808	344,217
Main maturing capital outflow	612,072	260,150	201,339	38,099	29,416	83,068
Maturity gap	(33,846)	(197,396)	(137,196)	5,205	34,392	261,149

8.5 Market Risk

(1) Sources and definition of market risk

Market risk refers to the risk of changes in the fair value or future cash flows of on-and off-balance-sheet financial instruments held by the Bank and subsidiaries due to adverse changes in market prices in terms of interest rates, foreign exchange rates, stock prices, and commodity prices. Essentially, it refers to the risk of fluctuations in the Bank and subsidiaries' net profit or the values of investment portfolios as a result of changes in the aforesaid risk factors.

Market risk confronting the Bank and subsidiaries mainly arises from fluctuations in the prices of equity instruments, interest rates and exchange rates. Positions in equity securities that are subject to market risk mainly consist of stocks listed on the stock/OTC exchanges and emerging stocks, funds, and ETFs. Positions subject to interest rate risks include bonds and interest rate derivatives such as fixed and floating interest rate swaps; positions subject to currency exchange risks primarily comprise of the various derivative instruments denominated in foreign currencies, the various foreign-currency bonds.

(2) Market risk management policy

The Bank and subsidiaries monitor positions subject to market risk and the tolerable losses in accordance with the risk management objectives and limits approved by the Board of Directors.

The Bank and subsidiaries have put in place a market risk information system to effectively monitor the risk limits of the positions of financial instruments, assess the profit and loss, conduct tress testing, sensitivity(DV01) and compute the value at risk(VaR). Such information is presented at the Assets-Liabilities and Risk Management Committee and Board of Directors meetings as guidelines for decision-making by senior management.

The Risk Management Department of the Bank and subsidiaries is primarily responsible for reporting to senior management on a regular basis the control status of investment portfolios. Such information is also communicated with the relevant departmental supervisors.

(3) Market risk management procedures

A. Identification and measurement

The business units and risk management unit of the Bank and subsidiaries have set market risk factors to identify positions exposed to risks and to measure market risk. Market risk factors refer to factors that may affect the value of interest rate, exchange rate and equity securities positions. Such factors include positions, profit or loss, sensitivity, stress testing and value at risk, which are used to measure the impact of interest risks, exchange rate risks and equity securities risks on the investment portfolios.

B. Control and reporting

The Risk Management Department of the Bank and subsidiaries report the information on the execution of market risk management objectives, positions, profit or loss, sensitivity, stress testing and VaR to the ALCO (Assets-Liabilities and Risk Management Committee) or senior management and the departmental supervisor of the relevant business units. The Bank and subsidiaries have put in place clearly defined reporting procedures and all transactions are governed by specific risk limits and stop-loss regulations. For example, where a transaction has reached the stop-loss limit, such transaction must be terminated immediately or the trading unit must submit in detail reasons for continuing the transaction and responsive measures to the Investment Review Committee or senior management for approval.

(4) Trading-book risk management policy

Trading-book positions refer to financial instruments and physical commodities held for trading purposes or to hedge against trading-book positions. Positions held for earning profits from changes in bid-ask spread or changes in price and interest rate. Positions that do not belong to trading book are assigned to banking book.

A. Strategy

The Bank and subsidiaries undertake assessments and exercise controls to effectively control market risk and ensure that trading strategies adopted by business units are relatively free from constraints. The Bank and subsidiaries formulate risk limits for the respective investment portfolios on the basis of trading strategies, type of product and annual profit target to manage trading-book investment portfolios.

B. Policies and procedures

The Bank has formulated the "Market Risk Management Guidelines" as the key regulations to monitor trading-book positions.

C. Valuation policy

Where market prices are available for valuation of trading-book financial instruments, the positions shall be valued at least once daily using readily available information obtained from independent resources.

D. Methods of risk measurement

(A) Refer to Note 8.5 (9) For assumptions and methods used to calculate VaR.

(B) The Bank and subsidiaries conduct stress testing under scenarios based on 100bp changes in interest rate, 15% change in the price of equity securities and 3% of major currency exchange rates. Results of stress testing are presented at the ALCO and Board of Directors meetings.

(5) Management of trading-book interest rate risk

A. Definition of interest rate risk

"Interest rate risk" refers to the risk of changes in the fair value of the trading-book positions held by the Bank and subsidiaries or risk of financial loss as result of interest rate movements. Instruments subject to interest rate risk include securities and derivative instruments linked to interest rate.

B. Trading-book interest rate management procedures

The Bank and subsidiaries carefully select investment targets by conducting research on the issuer's credit standing and financial status, country risk and interest rate trends. The Bank and subsidiaries also formulate limits applicable to trading-book transactions and stop-loss limit (applicable to the trading unit, trader, and instruments traded) on the basis of management strategies and market conditions for approval by senior management or the Board of Directors.

C. Methods of measurement

(A) Refer to Note 8.5 (9) For VaR assumptions and computation method.

(B) Use DV01 to measure the degree of impact of interest rate risks on the investment portfolios on a monthly basis.

(6) Management of banking-book interest rate risk

Management of banking-book interest rate risk is primarily aimed at enhancing interest rate risk management, improving the efficiency of capital utilization and ensuring sound business operation.

A. Strategy

Interest rate risk management aims at improving the Bank's and subsidiaries' responsiveness to interest rate movement and involves measuring, managing and hedging against risks of adverse changes in the economic value of balance sheet items and profitability as a result of changes in interest rate.

B. Management procedures

The Bank and subsidiaries identify the interest rate repricing risk when conducting businesses related to interest rate. The Bank and subsidiaries also assess the potential effects of interest rate movements on the profit and economic value of the balance sheet items of the Bank and subsidiaries.

The Bank and subsidiaries monitor the risk limits applicable to positions exposed to interest rate risk and the various interest rate management indicators on a monthly basis. The monitoring results are reported to the ALCO and periodically to the Board of Directors.

C. Method of measurement

The Bank and subsidiaries measure the interest rate repricing risk arising from different repricing dates of the Bank's and subsidiaries' assets and liabilities. To ensure long-term profitability and business growth, the Bank and subsidiaries have formulated monitoring indicators to conduct stress testing on the interest rate sensitivity of major maturities. The various interest rate risk indicators and results of stress testing are presented to the ALCO each month for approval.

(7) Management of exchange rate risk

A. Definition of exchange rate risk

Exchange rate risk refers to the profit and loss arising from conversion from one currency to the other in different time periods. Exchange rate risk confronting the Bank and subsidiaries originates from spot and forward exchange contracts as well as derivatives. The Bank and subsidiaries aim to square all foreign exchange positions on a daily basis and as such, are subject to relatively low exchange rate risks.

B. Exchange rate risk management policy, procedures and method of measurement

The Bank and subsidiaries stipulate transaction limits and stop-loss limits applicable to each trading unit and trader to control exchange rate risks and potential losses with an acceptable range. Exchange rate risks are monitored using VaR. Please refer to Note 8.5 (9) for further details.

The Bank and subsidiaries conduct stress testing on exchange rate risks at least once a year under scenarios with a 3% change in the exchange rate of major currencies. Results of stress testing are presented to the ALCO and Board of Directors for approval. Please refer to Note 8.5 (9) for further details on stress testing.

(8) Management of price risk of equity securities

A. Definition of the price risk of equity securities

Mark risk confronting the Bank and subsidiaries includes individual risks arising from changes in the market price of individual equity securities as well as general market risk arising from a general movement in market prices.

B. The purpose for managing the price risk of equity securities

Price risk management aims at preventing severe fluctuations in the prices of equity securities from causing a deterioration in the Bank's and subsidiaries' financial status or profitability and aims at improving the efficiency of fund utilization and ensuring sound business operation.

C. Procedures for managing the price risk of equity securities

The Bank and subsidiaries stipulate investment limits applicable to the respective counterparties and industries and use the β value to measure the degree by which equity securities and funds are affected by systematic risk on a monthly basis. Stop-loss regulations are reviewed and approved by the Board of Directors. If a trading unit continues to hold a trading position in the situation where the stop-loss limit has been reached, special approval is required from the Investment Review Committee and senior management.

D. Method of measurement

Price risk arising from trading-book equity securities is controlled on the basis of VaR. Please refer to Note 8.5 (9) for further details.

Price risk arising from non-trading book equity securities held by the Bank and subsidiaries is monitored by appropriate mechanisms designed specifically to meet the needs of the Bank or subsidiary's business development. The Long-term Investment Review Committee receives periodic reports on price risk.

(9) Market risk valuation technique

A. VaR (Value at Risk)

The Bank and subsidiaries use the VaR model to conduct monthly evaluation on the market risk of positions held and the maximum potential loss that may arise for reporting to the ALCO and senior management.

Value at risk is a statistical estimate of potential losses on current positions that may result from adverse market movements. VaR is defined as "the worst expected loss" over a target horizon with a given level of confidence (99%) and normal market environment. As such, it is still probable (1%) that the actual loss may exceed the VaR estimate. The VaR model assumes a minimum holding period (10 business days) prior to closing off the positions. The Bank and subsidiaries evaluate the VaR of positions held by the variance and covariance method. This valuation method cannot prevent losses as a result of severe market fluctuations.

Item	2014			2013		
	Average	Highest	Lowest	Average	Highest	Lowest
Foreign exchange VaR	4,013	6,862	1,773	4,064	7,049	1,972
Interest rate VaR	29,150	34,727	23,829	11,295	15,748	7,418
Equity securities VaR	18,123	25,184	14,471	13,880	17,773	10,021
Less: risk diversification effects	(31,564)	(37,434)	(26,693)	(18,373)	(24,314)	(14,066)
Total VaR	19,723	21,807	18,011	10,866	15,393	7,340

By comparing the values at risk in 2014 and 2013, the increase in the value at risk of the interest rate was the largest, followed by the value at risk of equity securities. The main reason was the position held by the Bank of the interest rate instruments such as government debts and RS increased in 2014 due to business growth, so that the value at risk of the interest rate rose. In addition, the volatility in the stock market was more dramatic in 2014 than 2013, which also increased the value at risk of equity securities.

B. Stress testing

Stress testing is used to measure the maximum potential loss arising from the risk asset portfolios that may be suffered by the Bank in the worst case scenario. The Risk Management Dept. conducts stress testing on interest rate risk, exchange rate risk and equity securities risk. Results of stress testing are presented to the ACLO and Board of Directors for approval.

(10) Concentration of exchange rate risk

The following table shows the concentration of exchange rate risk exposures arising from all assets and liabilities expressed in the respective currencies and carrying amounts held by the Bank and subsidiaries as of December 31, 2014 and 2013 (only information for the top 4 currencies is disclosed)

Unit: FCY / NTD Thousand

	December 31, 2014			
	USD	AUD	CNY	ZAR
Foreign-currency Financial Assets				
Cash and cash equivalents	$27,946	$3,626	$149,512	$4,465
Due from the Central Bank and call loans to banks	5,500	—	—	—
Financial assets at fair value through profit or loss	100	—	—	—
Available-for-sale financial assets	19,168	71,388	—	184,218
Discounts and loans	470,638	7,500	66,000	—
Accounts receivable	7,394	—	—	—
Held-to-maturity financial assets	61,755	3,965	—	66,515
Other financial Assets	6,125	—	—	—
Other assets	8	1,252	151,915	96,770
Total assets	$598,634	$87,731	$367,427	$351,968
Exchange rate	31.605	25.77	5.064	2.684
NTD equivalent of total assets	$18,919,828	$2,260,840	$1,860,649	$944,682
Foreign Currency Financial Liabilities				
Due to Central Bank and other banks	$170,642	$61,400	$ —	$120,000
Deposits and remittances	328,345	26,330	360,464	230,672
Financial liabilities at fair value through profit or loss	—	—	—	—
Other financial liabilities	—	—	—	—
Accounts payable	2,162	1	6,223	—
Other liabilities	78,992	—	740	1,296
Total liabilities	$580,141	$87,731	$367,427	$351,968
Exchange rate	31.605	25.77	5.064	2.684
NTD equivalent of total liabilities	$18,335,347	$2,260,840	$1,860,649	$944,682

Unit: FCY / NTD Thousand

	December 31, 2013			
	USD	AUD	HKD	ZAR
Foreign-currency Financial Assets				
Cash and cash equivalents	$25,449	$4,468	$13,447	$17,400
Due from the Central Bank and call loans to banks	341	—	—	—
Financial assets at fair value through profit or loss	—	—	—	—
Available-for-sale financial assets	78,399	92,248	—	137,440
Discounts and loans	451,404	7,500	224,200	—
Accounts receivable	2,811	—	—	—
Held-to-maturity financial assets	—	—	—	—
Other financial Assets	9,746	—	—	—
Other assets	9	243	—	74,543
Total assets	$568,159	$104,459	$237,647	$229,383
Exchange rate	29.85	26.54	3.82	2.815
NTD equivalent of total assets	$16,959,533	$2,772,354	$907,812	$645,713
Foreign Currency Financial Liabilities				
Due to Central Bank and other banks	$297,906	$79,000	$150,000	$ —
Deposits and remittances	223,517	25,459	83,198	228,088
Financial liabilities at fair value through profit or loss	—	—	—	—
Other financial liabilities	—	—	—	—
Accounts payable	2,331	—	—	—
Other liabilities	33,293	—	4,449	1,295
Total liabilities	$557,047	$104,459	$237,647	$229,383
Exchange rate	29.85	26.54	3.82	2.815
NTD equivalent of total liabilities	$16,627,851	$2,772,354	$907,812	$645,713

(11) Information on foreign currency financial assets and liabilities with significant impacts:

Unit: NT$ Thousand

Item	December 31, 2014			December 31, 2013		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	602,735	31.605	19,049,440	573,262	29.850	17,111,871
GBP	2,936	48.960	143,747	3,042	49.140	149,484
HKD	168,004	4.045	679,576	237,647	3.820	907,812
AUD	86,479	25.770	2,228,564	104,217	26.540	2,765,919
SGD	140	23.840	3,338	173	23.550	4,074
CHF	623	31.82	19,824	304	33.460	10,172
CAD	2,501	27.16	67,927	763	27.960	21,333
JPY	2,454,466	0.2622	643,561	1,692,606	0.2823	477,823
CNY	215,512	5.064	1,091,353	86,397	4.902	423,518
ZAR	255,198	2.684	684,951	154,840	2.815	435,875
SEK	441	4.030	1,777	1,747	4.600	8,036
EUR	5,674	38.200	216,747	5,877	40.940	240,604
NZD	22,964	24.650	566,063	18,504	24.420	451,868
Non-monetary Items						
USD	465	31.605	14,696	5	29.850	149
JPY	—	0.2622	—	20,000	0.2823	5,646
EUR	601	38.200	22,958	500	40.940	20,470
Financial Liabilities						
Monetary Items						
USD	501,188	31.605	15,840,047	524,276	29.850	15,649,639
GBP	2,960	48.960	144,922	3,050	49.140	149,877
HKD	167,410	4.045	677,173	233,198	3.820	890,816
AUD	87,731	25.770	2,260,828	104,459	26.540	2,772,354
SGD	64	23.840	1,526	97	23.550	2,284
CHF	323	31.820	10,278	264	33.460	8,833
CAD	2,637	27.160	71,621	2,411	27.960	67,412
JPY	2,533,225	0.2622	664,212	1,715,761	0.2823	484,359
CNY	366,687	5.064	1,856,903	69,522	4.902	340,797
ZAR	351,968	2.684	944,682	229,383	2.815	645,713
SEK	8	4.030	32	—	—	—
EUR	6,927	38.200	264,611	6,145	40.940	251,576
NZD	23,539	24.650	580,236	18,476	24.420	451,184
Non-monetary Items						
USD	1,265	31.605	39,980	1,193	29.850	35,611
HKD	1,292	4.045	5,226	3,037	3.820	11,601
CNY	740	5.064	3,747	—	4.9020	—

(12) Disclosures in accordance with the Regulations Governing the Preparation of Financial Statements by Public Banks

A. Interest rate sensitivity of the Bank's and subsidiaries' assets and liabilities (NTD)

December 31, 2014					
Item	1 – 90 days (incl.)	91- 180 days (incl.)	181- 365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	220,738,186	6,410,893	486,833	2,842,214	230,478,126
Interest rate sensitive liabilities	159,664,144	26,863,018	28,793,845	10,287,859	225,608,866
Interest rate sensitivity gap	61,074,042	(20,452,125)	(28,307,012)	(7,445,645)	4,869,260
Net worth					10,759,019
Ratio of interest rate sensitive assets to liabilities (%)					102.16
Ratio of interest rate sensitivity gap to net worth (%)					45.26

December 31, 2013					
Item	1 – 90 days (incl.)	91- 180 days (incl.)	181- 365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	192,298,146	7,639,148	236,907	2,273,264	202,447,465
Interest rate sensitive liabilities	66,992,116	87,388,199	30,384,982	9,242,844	194,008,141
Interest rate sensitivity gap	125,306,030	(79,749,051)	(30,148,075)	(6,969,580)	8,439,324
Net worth					10,417,349
Ratio of interest rate sensitive assets to liabilities (%)					104.35
Ratio of interest rate sensitivity gap to net worth (%)					81.01

Explanation 1: Refer to total NTD assets and liabilities of all onshore branches of the Bank, excluding contingent assets or liabilities.

Explanation 2: Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.

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

Explanation 4: Ratio of interest rate sensitive assets to liabilities＝Interest rate sensitive assets ÷ interest rate sensitive liabilities (refer to NTD interest rate sensitive assets and interest rate sensitive liabilities).

B. Analysis of interest rate sensitive assets and liabilities (USD)

Unit: NT$ Thousand；%

December 31, 2014					
Item	1 – 90 days (incl.)	91- 180 days (incl.)	181- 365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	473,931	54,887	1,330	62,537	592,685
Interest rate sensitive liabilities	342,005	52,081	49,143	55,757	498,986
Interest rate sensitivity gap	131,926	2,806	(47,813)	6,780	93,699
Net worth					18,089
Ratio of interest rate sensitive assets to liabilities (%)					118.78
Ratio of interest rate sensitivity gap to net worth (%)					517.99

December 31, 2013					
Item	1 – 90 days (incl.)	91- 180 days (incl.)	181- 365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	465,795	47,768	1,006	53,074	567,643
Interest rate sensitive liabilities	376,615	126,388	18,284	—	521,287
Interest rate sensitivity gap	89,180	(78,620)	(17,278)	53,074	46,356
Net worth					11,112
Ratio of interest rate sensitive assets to liabilities (%)					108.89
Ratio of interest rate sensitivity gap to net worth (%)					417.17

Explanation 1: Refer to total USD assets and liabilities of all onshore branches of the Bank, excluding contingent assets or liabilities.
Explanation 2: Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.
Explanation 3: Interest rate sensitivity gap＝interest rate sensitive assets－interest rate sensitive liabilities.
Explanation 4: Ratio of interest rate sensitive assets to liabilities＝Interest rate sensitive assets ÷ interest rate sensitive liabilities (refer to USD interest rate sensitive assets and interest rate sensitive liabilities).

9. CAPITAL MANAGEMENT

9.1 Overview

The Bank and subsidiaries adopt the following capital management objectives:

The primary objectives of the Bank and subsidiaries in capital management is to ensure that the core capital of the Bank and subsidiaries meets the regulatory capital requirement and shall at least equal to the minimum capital adequacy ratio required by law. Refer to the regulations enforced by the competent authority for calculation of the core capital and regulatory capital.

9.2 Capital Management Procedures

The Bank and subsidiaries maintain an adequate capital adequacy ratio that meets the requirements of the competent authority. The Bank and subsidiaries lodge the capital adequacy ratio with the competent authority on a quarterly basis.

Tthe capital of the Bank and subsidiaries. Pursuant to the “Regulations Governing the Capital Adequacy and Capital Category of Banks”, qualifying core capital is made up of Tier 1 capital and Tier 2 capital:

- Tier 1 Capital: Including common stock equity tier 1 capital and other non-common equity tier 1 capital.
  - — Common stock equity tier 1 capital: Refers to common stock equity (ordinary share capital and share premium, additional paid-in capital, legal reserve, special reserve, accumulated earnings, non-controlling interests, other component of equity, and etc.) deducting intangible assets, deferred income tax assets from the previous year, the insufficiency of operation reserves and loan loss provisions, properties revaluation increments, unamortized loss on sale of substandard debts and other adjustments prescribed by other calculation methods and regulations.
  - — Other non-common equity tier 1 capital: Including non-cumulative perpetual preferred stock and share premium, non-cumulative perpetual subordinated debt, non-cumulative perpetual preferred stock and share premium issued by the subsidiary of the bank and not directly or indirectly held by the bank, and non-cumulative perpetual subordinated debt.
- Tier 2 capital: Includes cumulative perpetual preferred stock and share premium, cumulative perpetual subordinated debt, convertible subordinated bond, long-term subordinated bond, non-perpetual preferred stock and share premium, retained earnings increments measured at fair value or revaluation of properties on the first-time adoption of International Accounting Standards, 45% of gains from increments of investment property at fair value model and unrealized holding gains of available-for-sale financial assets, operation reserves and loan loss provisions, cumulative perpetual preferred stock and share premium issued by the subsidiary of the bank and not directly or indirectly held by the bank, cumulative perpetual subordinated debt, convertible subordinated bond, long-term subordinated bond, non-perpetual preferred stock and share premium, and etc.

9.3 Capital Adequacy:

Unit: NT$ Thousand ; %

Items \ Year (Note 2)			December 31, 2014	December 31, 2013
Core Capital	Tier 1 capital		10,652,950	10,100,154
	Tier 2 capital		5,697,928	3,665,056
	Tier 3 capital			
	Core capital		16,350,878	13,765,210
Risk-weighted Assets	Credit Risk	Standardized approach	154,917,501	137,615,003
		Internal rating-based approach		
		Assets securitization	832,647	1,772,752
	Operational Risk	Basic indicator approach	5,419,853	4,941,919
		Standardized approach / Alternative standardized approach		
		Advanced measurement approach		
	Market Risk	Standardized approach	4,913,197	3,177,928
		Internal models approach		
	Total risk-weighted assets		166,083,198	147,507,601
Capital adequacy ratio			9.84	9.33
Ratio of Tier 1 capital to risk-weighted assets			6.41	6.85
Ratio of Tier 2 capital to risk-weighted assets			3.43	2.48
Ratio of Tier 3 capital to risk-weighted assets				
Ratio of common capital to total assets			2.75	3.08
Financial leverage ratio			3.08	3.21

Note 1: The amount of core capital and risk-weighted assets shall be calculated in accordance with the "Regulations Governing the Capital Adequacy of Banks" and "Explanations and Formats for Calculation of Core Capital and Risk-Weighted Assets of Banks".

Note 2: The annual report shall disclose the capital adequacy ratios as of the current and last balance sheet dates The half-yearly report shall disclose the capital adequacy ratios as of the current and last balance sheet plus the capital adequacy ratios as of December 31 of the previous year.

Note 3: The ratios are calculated as follows:

1. Core capital＝Tier 1 capital＋Tier 2 capital＋Tier 3 capital.
2. Total risk-weighted assets＝Credit risk-weighted assets＋capital provision for (operational risk＋market risk)＊12.5.
3. Capital adequacy＝core capital/ total risk-weighted assets.
4. Ratio of Tier 1 capital to risk-weighted assets＝Tier 1 capital/ total risk-weighted assets.
5. Ratio of Tier 2 capital to risk-weighted assets＝Tier 2 capital/ total risk-weighted assets.
6. Ratio of Tier 3 capital to risk-weighted assets＝Tier 3 capital/ total risk-weighted assets.
7. Ratio of common capital to total assets＝common capital/ total assets.
8. Leverage ratio=Tier 1 capital/ adjusted average assets (average assets less "goodwill (deductions from Tier 1 capital" , "unamortized loss on disposal of non-performing loans" and other amounts to be deducted from Tier 1 capital in accordance with the "Explanations and Formats for Calculation of Core Capital and Risk-Weighted Assets of Banks".

Note 4: This information is not required to be disclosed in the first and third quarterly financial reports.

10. RELATED PARTY TRANSACTIONS

10.1 Name and Relationship of Related Parties with the Bank

Name of Related Party	Relationship with the Bank
Kaohsiung City Government	A major shareholder of the Bank
Kaohsiung Rapid Transit Corporation	Related party in substance
Others	Directors, supervisors and managerial officers and their relatives and related parties in substance

10.2 Significant transactions with related parties

The transactions, account balance, revenues and expenses between the Bank and its subsidiaries were eliminated and not disclosed in this note. Transactions between the Bank together with its subsidiaries and other related parties were as follows:

(1) Credit

Name of Related Party	December 31, 2014	December 31, 2013
Kaohsiung City Government	$28,870,700	$42,018,671
Others	136,705	149,330

	2014	
Name of Related Party	Interest & service fee income	Interest Rate Range
Kaohsiung City Government	$302,070	0.749%-2.375%
Others	2,552	1.39%-2.90%

	2013	
Name of Related Party	Interest & service fee income	Interest Rate Range
Kaohsiung City Government	$410,514	0.850%-2.375%
Others	1,562	1.390%-3.980%

For the years ended December 31, 2014 and 2013, interest rates charged for credit extended to related parties are shown above by the type and purpose of loan and the interest rate range for credit extended to non-related parties (other than those under debt negotiation) was 0.5%-10.00% and 0.885%-10%, respectively.

(2) Deposit

Name of Related Party	December 31, 2014	December 31, 2013
Kaohsiung City Government	$13,470,305	$12,323,322
Kaohsiung Rapid Transit Corporation	384,792	319,755
Others	514,247	511,882

	2014	
Name of Related Party	Interest expense	Interest Rate Range
Kaohsiung City Government	$65,346	0%-1.45%
Kaohsiung Rapid Transit Corporation	3,073	0%-1.36%
Others	6,537	0%-13.00%

	2013	
Name of Related Party	Interest expense	Interest Rate Range
Kaohsiung City Government	$81,766	0%-1.45%
Kaohsiung Rapid Transit Corporation	7,434	0%-1.36%
Others	6,550	0%-13.00%

A. The interest rate range for the above related-party deposit accounts is shown up by the nature of the deposit. The interest rate range for related-party deposits was 0%-13%.

B. The highest deposit rate offered to employees of the Bank (not related parties) was 13%. Deposit rate offered to other related parties may vary depending on the nature of the deposits with the highest rate offered equivalent to that offered to bank employees.

(3) Lease:

The Bank leases the following premise from the Kaohsiung City Government:

FY 2014:

Leased Property	Lease Term	Payment Method	Rental Expense
Premise of Hsiao Kang Branch	2014.1. 1-2015.12.31	Half-yearly payment	$211
Premise of Yen Cheng Branch	2014.1. 1-2016.12.31	Half-yearly payment	740
Premise of Wan Nei Branch	2014.1. 1-2015.12.31	Half-yearly payment	970
Premise of Shih Fu Branch	2014.1. 1-2015.12.31	Half-yearly payment	235
Premise of Tso Ying Branch	2012.1. 1-2014.12.31	Half-yearly payment	598
Premise of Kwei Lin Branch	2013.1. 1-2014.12.31	Half-yearly payment	358
Premise of Gangshan Benjhou Branch	2012.9. 1-2017.8.31	Half-yearly payment	392
		Total	$3,504

FY 2013:

Leased Property	Lease Term	Payment Method	Rental Expense
Premise of Hsiao Kang Branch	2012.1. 1-2013.12.31	Half-yearly payment	$213
Premise of Yen Cheng Branch	2011.1. 1-2013.12.31	Half-yearly payment	744
Premise of Wan Nei Branch	2012.1. 1-2013.12.31	Half-yearly payment	977
Premise of Shih Fu Branch	2012.1. 1-2013.12.31	Half-yearly payment	240
Premise of Tso Ying Branch	2012.1. 1-2014.12.31	Half-yearly payment	602
Premise of Kwei Lin Branch	2013.1. 1-2014.12.31	Half-yearly payment	359
Premise of Gangshan Benjhou Branch	2012.9. 1-2017.8.31	Half-yearly payment	392
		Total	$3,527

Type of lease: operating lease.

The above rents are determined in accordance with current land value and the current taxable value of the building.

(4) The miscellaneous expenditure spent by the Bank on the related parties were as follows:

Name of Related Party	2014	2013
Kaohsiung City Government[(Note)]	$6,000	$ —
Others	450	—

(Note): The Bank donated NT$6,000 thousand to the Kaohsiung City Government in September, 2014 for emergency allowance to gas explosions occurred in Qianzhen District, Kaohsiung City.

(5) Information on transactions with related parties who are the borrower, guarantor or provider of collateral:

A. Loans

December 31, 2014:

Unit: NT$ Thousand

Type	Number of accounts or name of related party	Highest balance	Closing balance	Default Status		Collateral	Whether terms and conditions of the related party transactions are different from those of arms length transactions
				Normal loans	Overdue accounts		
Employee consumer loan	13	25,218	19,457	19,457	—	real estate, credit	No
Residential mortgage	10	89,028	79,127	79,127	—	real estate	No
Other loans	Chou ○○	2,116	2,021	2,021	—	real estate	No
Other loans	Lin ○○	28,000	28,000	28,000	—	real estate	No
Other loans	Chen ○○	468	—	—	—	NCD	No
Other loans	Ko ○○	3,100	3,100	3,100	—	real estate	No
Other loans	Ko ○○	500	500	500	—	real estate	No
Other loans	Sung ○○	4,500	4,500	4,500	—	real estate	No

December 31, 2013:

Unit: NT$ Thousand

Type	Number of accounts or name of related party	Highest balance	Closing balance	Default Status		Collateral	Whether terms and conditions of the related party transactions are different from those of arms length transactions
				Normal loans	Overdue accounts		
Employee consumer loan	16	25,218	25,218	25,218	—	real estate, credit	No
Residential mortgage	12	89,028	89,028	89,028	—	real estate	No
Other loans	Chou ○○	2,209	2,116	2,116	—	real estate	No
Other loans	Chen ○○	468	468	468	—	NCD	No
Other loans	Ko ○○	2,000	2,000	2,000	—	real estate	No
Other loans	Sung ○○	2,500	2,500	2,500	—	real estate	No
Other loans	Lin ○○	28,000	28,000	28,000	—	real estate	No
Other loans	Ko ○○	2,000	—	—	—	real estate	No
Other loans	Li ○○	766	—	—	—	consumer loan	No
Other loans	Hu ○○	424	—	—	—	consumer loan	No

Explanation 1: The balances of employee consumer loans and residential mortgages may be disclosed in one lump sum. The balance of loans to other related parties shall be disclosed separately according to the name of each related party.

Explanation 2: Collaterals include real estate short-term bills, government bonds, secured corporate bonds, unsecured corporate bonds, exchange- or OTC-listed stocks, unlisted stocks and other properties. Provide details for other properties.

Explanation 3: As of December 31, 2014 and 2013, allowance for doubtful accounts provided for loans to related parties amounted to $80 thousand and $132 thousand, respectively. For years ended December 31, 2014 and 2013, bad debt expenses recognized (reversal) in relation to loans to related parties amounted to ($52) thousand and $50 thousand, respectively.

B. Guarantee: None.

C. Derivatives: None.

D. Disposal of non-performing loans: None.

(6) Remuneration to key managerial officers

Item	December 31, 2014	December 31, 2013
Salaries and other short-term employee benefits	$38,640	$32,384
Post-employment benefits	734	748
Other long-term employee benefits	—	—
Termination benefits	—	—
Share-based payment	—	—
Total	$39,374	$33,132

11. PLEDGED ASSETS

Item	December 31, 2014	December 31, 2013
Negotiable certificate of deposit	$1,700,000	$1,700,000
Negotiable certificate of deposit issued by Central Bank	2,600,000	2,600,000
Government bond (par value)	743,300	274,500
Total	$5,043,300	$4,574,500

The above pledged assets were placed with the court as the guarantee deposit for executing provisional seizure on borrowers' assets or used as the guarantee deposit for credit card payment, as compensation reserve (Trust Department), as the collateral of securities issuer and for real-time gross settlement mechanism implemented by the Central Bank for the Interbank Funds Bank Transfer System. The Bank provides negotiable certificates of deposit as the day guarantee for overdrafts and as such, the guarantee amount may be changed at any time and unused credit may still be used as liquid reserve.

12. SIGNIFICANT OR CONTINGENT LIABILITES AND COMMITMENTS

12.1 As of December 31, 2014 and 2013, the Bank had the Following Commitments:

Item	December 31, 2014	December 31, 2013
Securities sold with agreement to repurchase	$61,199	$68,136
Securities purchased with agreement to resell	13,389,557	3,461,566
Loan yet to be appropriated by the borrower (Note)	69,868,683	73,474,403
Credit line facility yet to be utilized by the credit card holder	6,129	6,612
Standby letter of credit yet to be utilized by the client	1,377,645	1,357,740
Guarantees	5,504,422	4,128,681
Amounts collected on behalf of customers	12,989,978	11,533,824
Agency loans payable	5,463,995	6,472,604
Agency sale of traveller's checks	78,673	66,034
Trust assets	19,112,086	19,034,132
Marketable securities held under custody	30,512,206	27,641,027

Note: Including those belonging to non-cancellable loan commitments, cancellable loan commitments (unconditionally cancellable) and cancellable loan commitments (conditionally cancellable)

12.2 Major Litigated Cases:

(1) The trustee investment of the Bank and its subsidiaries in structured notes of ZAR$159,290 thousand equivalent to NT$627,603 thousand approximately, issued by Lehman Brothers Treasury Co. B.V. and guaranteed by Lehman Brothers Holdings Inc., was subsequently under suspension of redemptions due to the reorganization claimed by Lehman Brothers. Apart from settlements for the "Nine Major Disputes of Structured Notes of Lehman Brothers," an additional settlement solution was approved by the Board of Directors on April 23, 2009, taking 15% of the original amount entrusted to the Bank by the customer as a principle.

As of December 31, 2014, the Bank and its subsidiaries have settled a total of 753 disputes over the structured notes of Lehman Brothers and given the compensation of NT$ 112.2 million; the settled cases accounted for 96.54% of the total disputes (780 cases); the number of cases unsettled was 27 with a trust amount equivalent to NT$19,858 thousand.

(2) Up to December 31, 2014, the Bank and its subsidiaries obtained the distributions six times from Lehman Brothers Holdings Inc. and four times from Lehman Brothers Treasury Co.B.V. totaling ZAR$86,874 (at the announcement of debt accumulated distribution ratio of 46.062631%), after deduction of ZAR$65,875 thousand given to the trustors and ZAR$1,295 thousand reserved under other liabilities for future compensations given to the unsettled trustors, the remaining ZAR$19,704 thousand has been recorded as "Other Miscellaneous Revenues" as the compensation advanced to the trustors by the Bank and its subsidiaries

13. SIGNIFICANT DISASTER LOSS: None.

14. SIGNIFICANT SUBSEQUENT EVENT: None.

15. OTHER

15.1 Details and Amounts of Trust Businesses Conducted in Accordance with Regulations Governing Trust Enterprises

Balance Sheet of Trust Account

Trust Assets	December 31, 2014	December 31, 2013	Trust Liabilities	December 31, 2014	December 31, 2013
Bank deposit	$782,411	$404,196	Medium and long - term loans	$720,730	$363,750
Financial Assets					
Stock	852	9,570	Trust capital	18,473,955	18,817,783
Investment in funds	16,678,921	16,945,668			
Real Estate	1,649,902	1,674,697	Retained earnings	(82,599)	(147,402)
Total	$19,112,086	$19,034,131	Total	$19,112,086	$19,034,131

Inventory of Assets of Trust Account

Property item	December 31, 2014	December 31, 2013
Bank deposit	$782,411	$404,196
Stocks	852	9,570
Investment in funds	16,678,921	16,945,668
Real estate	1,649,902	1,674,697
Total	$19,112,086	$19,034,131

Income Statement of Trust Account

Property item	2014	2013
Trust Revenue		
Interest income	$2,241	$830
Investment income	266	180
Total trust revenue	$2,507	$1,010
Trust Expense		
Administrative expense	$11,198	$10,049
Taxes	77,316	47,855
Interest expense	—	10,327
Other expenses	70,412	118,315
Total trust expense	$158,926	$186,546
Net income (loss) before income tax	($156,419)	($185,536)
Income tax	(138)	(84)
Net income (loss)	($156,557)	($185,620)

Note: The above gains or losses from the trust account belonged to the trustor and not recognized by the Bank.

15.2 Supplementary Disclosure of the Balance Sheet and Income Statement of the Securities Department Pursuant to Article 7-1 of the Regulations Governing the Preparation of Financial Reports by Securities Issuers:

Balance Sheet of Securities Department

Assets	Dec. 31, 2014	Dec. 31, 2013	Liabilities	Dec. 31, 2014	Dec. 31, 2013
Financial assets at fair value through profit or loss	$271,177	$72,110	Bills and bonds sold under agreements to repurchase	$61,121	$68,019
Accounts receivable, net	12,233	4,627	Accounts payable	446	310
Available-for-sale financial assets	1,635,389	787,239	Current income tax liabilities	1,538	1,510
Real estate and equipment, net	29	40	Other liabilities	1,056,135	—
Other assets	5,300	7,918	Total Liabilities	$1,119,240	$69,839
			Shareholders' Equity		
			Operating capital	$800,000	$800,000
			Retained earnings	8,368	4,420
			Other equity	(3,480)	(2,325)
			Total shareholders' equity	$804,888	$802,095
Total assets	$1,924,128	$871,934	Total Liabilities and Shareholders' Equity	$1,924,128	$871,934

Income Statement of Securities Department

Item	2014	2013
Interest income	$14,961	$9,543
Interest expense	(364)	(443)
Net interest income	$14,597	$9,100
Non-interest income, net		
Services fees and commission income, net	($165)	($232)
Financial assets or liabilities at fair value through profit or loss	4,844	287
Realized profit (loss) from available-for-sale financial assets	276	—
Other non-interest gains (losses), net	(6,460)	(170)
Net revenue	$13,092	$8,985
Operating expenses		
Personnel expense	($3,001)	($2,882)
Depreciation and amortization	(11)	(11)
Other business and administrative expenses	(174)	(162)
Net income (loss) before income tax	$9,906	$5,930
Income tax (expense) benefit	(1,538)	(1,510)
Net income (loss)	$8,368	$4,420

15.3 Where the Bank is a subsidiary of a financial holding company, apportionment of revenue, cost, expenses and profit or loss arising from business and transaction activities, joint business promotion activities, sharing of information or sharing of business facility or premise between the Bank and the financial holding company and other subsidiaries: the Bank is not a subsidiary of a financial holding company.

15.4 Profitability

Item		2014	2013
Return on assets	Before income tax	0.20	0.21
	After income tax	0.20	0.18
Return on equity	Before income tax	4.63	4.50
	After income tax	4.62	3.94
Net profit margin		15.00	14.27

Explanation: 1. Return on assets＝Income before (after) income tax / average total assets.
2. Return on equity＝Income before (after) income tax / average net worth
3. Net profit margin＝net income (loss) after income tax / net operating revenue
4. Income before (after) income tax refers to the amount of income for the period from 1 January to the current quarter.

16. SUPPLENENTARY DISCLOSURES

16.1 Information on Significant Transactions (Before Consolidation)

(1) Cumulative purchase or sale of shares in the same investee company in excess of $300 million or 10% of paid-in capital: None.

(2) Acquisition of real estate in excess of $300 million or 10% of paid-in capital: None.

(3) Disposal of real estate in excess of $300 million or 10% of paid-in capital: None.

(4) Allowance for service fees to related parties in excess of $5 million: None.

(5) Receivables from related parties in excess of $300 million or 10% of the paid-in capital: Appendix 1.

(6) Information on sale of non-performing loans: Appendix 2.

(7) Type of and other relevant information on securitization instruments approved for issuance in accordance with the securitization rules governing financial assets and real estate: None.

(8) Other significant transactions sufficient to influence the decisions of financial statement users: None.

(9) Important business transactions between the parent company and subsidiaries: Appendix 3.

16.2 Information on Investee Companies:

(1) Loans to others: None.

(2) Endorsements or guarantees to others: None.

(3) Marketable securities held as of December 31, 2013: None.

(4) Cumulative purchase or sale of the same securities in excess of $300 million or 10% of paid-in capital: None.

(5) Information on derivative transactions: None.

16.3 Information on Investee Companies and Total Shareholding in Investee Companies: Appendix 4.

16.4 Investments in Mainland China: None.

Appendix 1

Bank of Kaohsiung Co., Ltd. and Subsidiaries
Statement of Receivables from Related Parties in Excess of $300 Million or 10% of Paid-in Capital
December 31, 2014

Unit: NT$ Thousand

Company in which accounts receivables are recognised	Counterparty	Relationship	Balance of Receivables from Related Parties	Turnover Rate	Overdue Receivables from Related Parties		Amount of receivables from related parties subsequently collected	Allowance for Doubtful Accounts
					Amount	Handling Method		
Bank of Kaohsiung Co., Ltd.	Kaohsiung City Government	Major shareholder of the Bank	28,870,700	Not applicable to financial institutions	None	Not applicable	As of March 26, 2015, $4,22,549 thousand were collected.	—

Appendix 2

Bank of Kaohsiung Co., Ltd. and Subsidiaries
Information on Disposal of Non-performing Loans
December 31, 2014

(1) Summary of non-performing loans sold

Unit: NT$ Thousand

Transaction Date	Counterparty	Contents of Claim (Note 1)	Carrying Amount (Note 2)	Sale Price	Gain (loss) on Disposal	Attached Conditions (Note 3)	Relationship between the Counterparty and Bank (Note 4)
2014.4.17	Bank of America, NA	Participating bank in syndicated loan	119,256	119,256	—	None	None
2014.4.17	Deutsche Bank London brach	Participating bank in syndicated loan	108,339	108,339	—	None	None

Note 1: Contents of claim: please describe in detail the type of claim, such as credit card, cash card, residential mortgage and accounts receivable etc.
Note 2: The book value is the balance of the original debt less the allowance for uncollectible accounts.
Note 3: lease disclose the details of attached conditions such as profit sharing and repurchase or resell agreements etc, if any.
Note 4: lease complete in accordance with the types of related parties described in IFRS 24. Describe in detail the basis of judgment if the related party is a related party in substance.

(2) Information on disposal of non-performing loans in a single sale in excess of $1 billion (excluding sale to related parties): disclosure not required.

Appendix 3

Bank of Kaohsiung Co., Ltd. and Subsidiaries
Business Relationships and Important Transactions between Parent and Subsidiaries
December 31, 2014

Individual transactions less than $1 million (incl.) are those disclosed as part of assets or revenues will not be separately disclosed:

Unit: NT$ Thousand

No. (Note 1)	Name of Related Party	Counterparty	Relationship with Counterparty (Note 2)	Transaction Status			
				Account	Amount	Terms of Transaction	Ratio of transaction to consolidated net income or total assets (Note 3)
0	Bank of Kaohsiung Co., Ltd.	Kaohsiung Bank Insurance Agency Co., Ltd.	Parent to subsidiary	Accounts receivable	29,941	—	0.01%
				Service fees and commission income, net	147,360	—	4.33%
		Kaohsiung Bank General Insurance Agency Co., Ltd	Parent to subsidiary	Service fees and commission income, net	1,231	—	0.04%
1	Kaohsiung Bank Insurance Agency Co., Ltd.	Bank of Kaohsiung Co., Ltd.	Subsidiary to parent	Cash and cash equivalents	72,333	—	0.03%
2	Kaohsiung Bank General Insurance Agency Co., Ltd	Bank of Kaohsiung Co., Ltd.	Subsidiary to parent	Cash and cash equivalents	8,773	—	—

Note 1: Information on business dealings between the parent company and subsidiaries shall be identified with a code in the first column. That is: 1. "0" for parent company; 2. "1" and thereafter for subsidiary companies assigned to each subsidiary.
Note 2: There are three types of related party transactions. Provide the type of transaction: 1. Parent to subsidiary; 2. Subsidiary to parent; 3. Subsidiary to subsidiary.
Note 3: The transaction amount is expressed as a percentage of total consolidated income or total assets. For balance sheet accounts, the ratio is calculated using the balance as of the end of the period as a percentage of total consolidated assets; for income statement accounts, the ratio is calculated using an interim accumulated transaction amount as a percentage of total consolidated income.
Note 4: All transactions between the parent company and subsidiaries were eliminated.

Appendix 4

Bank of Kaohsiung Co., Ltd. and Subsidiaries
Information on Investee Companies
December 31, 2014

Unit: Thousand shares; NT$ Thousand

Name of Investee Company	Location	Main Business Activities	Closing share-holding ratio	Carrying Amount of Investment	Investment Gain/Loss Recognised This Period (Note 3)	Aggregate Shareholding of the Bank and Subsidiaries (Note 1)				Note
						No. Of Shares	Pro Forma No. of Shares (Note 2)	Total		
								No. of Shares	Share-holding	
Finance Related Enterprise										
Kaohsiung Bank Insurance Agency Co., Ltd.	Kaohsiung	Life insurance agency	100%	52,060	44,038	300	—	300	100%	Equity-method investment
Kaohsiung Bank General Insurance Agency Co., Ltd	Kaohsiung	Property insurance agency	100%	8,537	2,130	500	—	500	100%	Equity-method investment
Taipei Forex Inc.	Taipei	Foreign exchange brokerage	3.53%	7,000	2,800	700	—	700	3.53%	Financial assets carried at cost
Taiwan Futures Exchange Corporation	Taipei	Futures trading	0.30%	6,000	1,534	870	—	870	0.30%	Financial assets carried at cost
Taiwan Financial Assets Service Co., Ltd.	Taipei	Financial assets services	2.94%	50,000	—	5,000	—	5,000	2.94%	Financial assets carried at cost
Taiwan Depository & Clearing Corporation	Taipei	Depository & clearing	0.08%	4,639	340	278	—	278	0.08%	Financial assets carried at cost
Sunny Assets Management Co., Ltd.	Taipei	Assets management	0.0058%	3	1	0.347	—	0.347	0.0058%	Financial assets carried at cost
Taiwan Finance Corporation			10.00%	516,165	25,808	51,617	—	51,617	10.00%	Financial assets carried at cost
Waterland Securities Co., Ltd.	Taipei	Bills & finance	4.94%	407,830	249	44,234	—	44,234	4.94%	Financial assets carried at cost
Taiwan Asset Management Co., Ltd.	Taipei	Securities	0.57%	75,000	6,473	7,500	—	7,500	0.57%	Financial assets carried at cost
Financial Information Services Co., Ltd.	Taipei	Assets management	1.14%	45,500	14,332	5,119	—	5,119	1.14%	Financial assets carried at cost
Non-Finance Related Enterprise										
Kaohsiung Rapid Transit Corporation	Kaohsiung	Rapid transit	0.23%	6,430	—	643	—	643	0.23%	Financial assets carried at cost
iPASS Corporation	Kaohsiung	Electronic ticket industry	5.39%	40,000	—	4,000	—	4,000	5.39%	Financial assets carried at cost
TWMP Co.,Ltd.	Taipei	Computer equipment installation	0.55%	3,000	—	300	—	300	0.55%	Financial assets carried at cost
Taiwan High Speed Rail Corp.	Taipei	Transportation	0.10%	42,768 (Note4)	(60,264) (Note4)	10,800	—	10,800	0.10%	Available-for-sale financial assets

Note 1: The shares in the investee companies held or to be held by the Bank or its directors, supervisors, president, vice president and affiliates as defined in the Company Act shall be included.

Note 2: (1) Proforma shareholding refers to the number of shares acquired or hypothetically the holder is entitled to acquire upon conversion of equity securities purchased or derivative contracts entered into (that were yet to be converted to equity) in accordance with the agreed terms and conditions and that the securities held are acquired by the Bank with the intent of linking them to the equity of the investee companies and are acquired for reinvestment purpose in accordance with Article 74 of the Act.

(2)"Equity securities" refer to securities as defined in Article 11-1 of the Enforcement Rules of the Securities and Exchange Act , such as convertible corporate bonds and warrants.

(3) "Derivative contracts" referred to in the preceding paragraph refer to derivative instruments that meet the criteria set out in IFRS 39, such as stock options.

Note 3: Investment gain or loss on equity-method investment recognized in the current period refer to gain or loss recognized on investments accounted for under the equity method; gain or loss recognized on financial assets carried at cost refers to cash dividend income received.

Note 4: Initial investment in Taiwan High Speed Rail Corp. was $100,440 thousand. Up to December 31, 2014, the accumulated impairment loss of NT$60,264 thousand and unrealized holding gains of available-for-sale financial assets of NT$2,592 thousand were recognized, and the carrying amount was NT$42,768 thousand accordingly.

17. SEGMENT INFORMATION

17.1 General Information:

The reportable segments of the Bank and subsidiaries are strategic business units that provide different products and services and are capable of generating revenues and incurring expenses. Due to the fact that each strategic enterprise unit require different technology and marketing strategies, the decision-makers of the Bank separately manage and monitor the operating results of the respective enterprise units in order to make decisions on resource allocation and performance reviews. The reportable segments are as follows:

(1) DBU: primarily engages in deposit taking and underwriting of loans in the domestic market.

(2) OBU& Finance Administration Department: primarily engages in the investment and trading of securities and offshore deposits and loans.

(3) Other segments: primarily engages in public treasury, trust, foreign exchange, life insurance and property insurance businesses.

17.2 Measurement of Segment Information:

The Bank and subsidiaries' decision makers separately monitor the operating results of the respective operating segments to make decisions on resource allocation and performance reviews. Segment performance is evaluated on the operating income or loss derived by the segment concerned. Such operating income or loss is measured by methods consistent with those adopted for the income and expense items in the consolidated financial statements. Notwithstanding the forging, income tax reported in the consolidated financial statements is managed on a group basis and has not been allocated to the respective reportable segments.

17.3 Financial Information by Segment:

FY 2014:

	DBU	OBU& Finance Administration Dept.	Other Segments	Adjustment & Elimination	Total
Interest and service fee income from external customers	$3,705,577	$1,046,058	$409,891	$ —	$5,161,526
Interest and service fee income from internal segments	893,676	—	381	—	894,057
Interest and service fees paid to external customers	(1,908,378)	(172,162)	(113,887)	—	(2,194,427)
Interest and service fees paid to internal segments	(381)	(745,085)	(148,591)	—	(894,057)
Other net revenue	273,864	124,871	34,185	—	432,920
Net revenue	$2,964,358	$253,682	$181,979	$ —	$3,400,019
Bad debt expense	(680,458)	(10,621)	—	—	(691,079)
Operating expenses	(2,014,344)	(73,337)	(109,929)	—	(2,197,610)
Segment profit (loss)	$269,556	$169,724	$72,050	$ —	$511,330
Assets					
Capital expenditure on non-current assets	$146,909	$ —	$35	$ —	$146,944
Segment assets	$171,400,831	$82,896,427	$14,554,809	$170,903	$269,022,970
Segment liabilities	$161,309,161	$81,920,949	$14,462,138	$ —	$257,692,248

(1) Inter-segment revenues and expenses were eliminated.

(2) Segment profit (loss) excluded income tax expense amounting to $1,439 thousand.

(3) Segment assets excluded deferred income tax assets amounting to $170,903 thousand.

FY 2013:

	DBU	OBU& Finance Administration Dept.	Other Segments	Adjustment & Elimination	Total
Interest and service fee income from external customers	$3,470,980	$847,450	$340,697	$ —	$4,659,127
Interest and service fee income from internal segments	653,954	—	454	(15)	654,393
Interest and service fees paid to external customers	(1,698,324)	(132,379)	(100,788)	—	(1,931,491)
Interest and service fees paid to internal segments	(454)	(517,020)	(136,919)	—	(654,393)
Other net revenue	82,649	106,280	20,685	15	209,629
Net revenue	$2,508,805	$304,331	$124,129	$ —	$2,937,265
Bad debt expense	(345,843)	(54,995)	—	—	(400,838)
Operating expenses	(1,897,261)	(67,394)	(92,653)	—	(2,057,308)
Segment profit (loss)	$265,701	$181,942	$31,476	$ —	$479,119
Assets					
Capital expenditure on non-current assets	$48,219	$ —	$ —	$ —	$48,219
Segment assets	$161,060,868	$60,027,687	$13,210,987	$133,821	$234,433,363
Segment liabilities	$151,407,294	$59,150,653	$13,126,374	$ —	$223,684,321

(1) Inter-segment revenues and expenses were eliminated.
(2) Segment profit (loss) excluded income tax benefit amounting to $60,014 thousand.
(3) Segment assets excluded deferred income tax assets amounting to $133,821 thousand.

17.4 Information by Products:

The consolidated company has disclosed information on operating segments and thus information by products are not separately disclosed here.

17.5 Information by Geographic Location:

(1) Revenues from external customers (attributed based on the country in which a customer is located):

Unit: Thousand shares

Country	2014	2013
ROC	$4,505,376	$4,154,997
United States	33,988	28,646
Australia	35,994	69,092
United Arab Emirates	2,086	2,622
Cayman Islands	35,425	38,836
Virgin Islands	79,120	33,496
Other countries	469,537	331,438
Total	$5,161,526	$4,659,127

(2) Non-current assets:

Country	2014	2013
ROC	$3,111,971	$2,844,378

17.6 Information on Major Client:

Client	2014	2013
Kaohsiung City Government	$302,070	$410,514