Chen Tsung-min

Chairman

Taiwan's economy grew at a stable pace in the year of 2014 even though the competition in the financial industry of the country remained fierce. With the efforts of the management team and all associates, the balances of both deposit and lending at the Bank continued to grow in 2014. In addition, offshore financial and wealth management businesses have made a significant progress. The overall operation delivered an after-tax net income of $510 million, which increased by 21.72% from the previous year. The EPS of 2014 was $0.69, growing by 21.05% from the previous year. In terms of asset quality improvement, the ratio of NPL declined from 0.60% at the end of 2013 to 0.45%, while NPL coverage ratio increased from 118.95% at the end of last year to 220.67%.

Look forward to the year of 2015, we expect an up-trend in Taiwan's economy in consideration of the financial deregulations by the government and business opportunities brought by cross-strait finance; all these factors will be significant to our business development. Combining deliberate cost-control measures with our market advantages in Southern Taiwan, a better performance in our business shall be expected in 2015.

Reviews of our operations in 2014 and our business plans for 2015 are described in following pages.

1.1 Operating Performance in 2014

1.1.1 Domestic and Foreign Economic and Financial Environment

1.1.1.1 Economic Outlook

The recovery of global economy continued in 2014; however, significant divergence existed among all major economies. US economy recovered at a strong pace compared to the tepid recovery of the Eurozone, Japan and China, and Emerging Europe (especially Russia) showed economic deceleration instead. Taiwan's economy, at mean time, experienced a relatively steady growth due to expanding private sector investment, increasing industrial production, and slow-going decline in unemployment rates. Even though Taiwan suffered many tainted food scandals, all indicators show that the domestic economy remained stable.

Huang Moan-sheng

President

1.1.1.2 Financial Situation

Global stock markets were on an upward trend last year, and the US and Asian stock markets were the best performers. The main reasons for the bull market were benefited by the steady recovery of the US economy and the consistent policy of low interest rate in the US, additional quantitative easing (QE) in Japan, reduction of interest rate in China, the initiation of the link between the stock markets of Shanghai and Hong Kong. On the other hand, the economy in Eurozone nations was comatose, and the market was worried that Greece could exit the Eurozone. These factors affected the performance of European stock markets. In terms of foreign exchange markets, major currencies mostly depreciated against the US Dollar. The reasons for the decline were the Fed Tapering and the expectation for interest rate hikes in the US and loose monetary policies of the European Central bank such as the negative interest rate policies and targeted long-term refinance operation. In addition, the Japanese central bank was also expanding its QE to inject more money into the economy. All these factors caused the appreciation of the US Dollar and the massive depreciation of the Euro and the Japanese Yen. In terms of Taiwan's financial markets, the stock market reached a new high, and the exchange rate of the New Taiwan Dollar was depreciating. These conditions were the result of aforementioned global financial situations.

1.1.2 Transformation of the Bank's Organization

1.1.2.1 As the age of Bank 3.0 is dawning, the Bank created an Electronic Financial Division in the Business Management Department.

1.1.2.2 To provide comprehensive foreign exchange services to our customers, the Bank transformed the following branches into designated branches with full foreign exchange transaction capacity: Chungho, Boai, Taoyuan, Hsinchu, Tachi, and Banciao.

1.1.3 Results of Business Plans and Operating Strategies for FY 2014

Unit：NTD/USD 100 Million, %

Item \ FY	2014	2013	Increase (or decrease) amount	Increase (or decrease) ratio
Deposit Business	2,164.55	1,929.35	235.20	12.19
Loan Business	1,763.00	1,673.28	89.72	5.36
Foreign Exchange Business (USD)	53.47	51.25	2.22	4.33
Commission & service fees	4.70	4.29	0.41	9.56

1.1.4 Execution of Business Target:

In 2014, the average deposits balance was NT$216.455 billion, or 109.05% of the deposits target; the average loans balance was NT$176.300 billion, or 104.32% of the loans target; foreign exchange business was US$5.347 billion, or 102.83% of the target; net income before tax was NT$502 million, or 104.58% of the target.

1.1.5 Analyses of Financial Revenue, Expenditure and Profitability

The changes in 2014 in budget settlement as compared with the same period of the previous year (2013) are shown below:

Unit : NTD Million,%

Item		2014	2013	Increase (or decrease) amount	Increase (or decrease) ratio
Net interest revenue		2,468	2,269	199	8.77
Net non-interest revenue		897	645	252	39.07
Net revenue		3,365	2,914	451	15.48
Credit loss expenses		(691)	(401)	290	72.32
Operating expenses		(2,172)	(2,043)	129	6.31
Income before tax		502	470	32	6.81
Net income		510	419	91	21.72
EPS on after income tax		0.69	0.57	0.12	21.05
ROA	Before income tax	0.20	0.21	(0.01)	—
	After income tax	0.20	0.18	0.02	—
ROE	Before income tax	4.55	4.41	0.14	—
	After income tax	4.62	3.94	0.68	—

1.1.6 Status of R & D

We continue to study worldwide economic and financial conditions, and analyze the dynamic data of major industries in Taiwan. Analytical reports on economy, finance, and major industries are presented on a regular basis. For significant economic and financial topics that are related to banking operations and industries to which we have credit exposure, research papers are drafted as the reference for business development.

1.2 Business Plan in 2015

1.2.1 Business objectives and Important Operating Policies

1.2.1.1 Loans – within the constraints of the size of our capital, we will manage to expand our loan operations:

(1) Increase loan amount in foreign currencies to raise both interest and fee revenues.

(2) Develop bundled products of consumer loan and mortgages.

1.2.1.2 Deposits – First priority will be the control of capital cost:

(1) Continue to hold internal competitions for raising New Taiwan Dollar demand deposit to increase demand deposit.

(2) Control the overall amount and interest rate of the time deposit accounts with respective balance over NTD 3 million.

1.2.1.3 Non-interest revenues – increase the percentage of revenues that does not require the input of capital:

(1) The fee revenue of mutual fund and insurance are the twin drivers of wealth management revenue.

(2) Stock investment will be the key to generate stable cash dividends and capital gains.

1.2.1.4 International banking – seize the business opportunities in overseas markets and increase the profit from international banking operations:

(1) Introduce OBU trust services to increase fee revenues.

(2) Further increases the investment amount in securities denominated in foreign currencies at the OBU to increase the income from financial operations, without compromising the security, liquidity, and return of investment assets.

1.2.1.5 Accelerate electronic finance operations :

(1) Extend service channels regarding electronic finance operations.

(2) Initiate the development plan of mobile payment services with horizontal alliances.

1.2.1.6 Optimize IT system to improve operational efficiency and comprehensive service functions:

(1) Elevate the efficiency of overall operations by simplifying the operation processes in deposits, remittances, loans, and the account opening for foreign exchange accounts.

(2) Development of application systems for various electronic financial services.

1.2.1.7 Internal control in consideration of both risk control and operational capacity:

(1) Continuous improvement of credit review mechanism and self-inspection operations in order to prevent potential frauds.

(2) Supervisors of all business units should actively monitor and provide assistance to operations of branches.

1.2.2 Expected Business Objective

1.2.2.1 Average Deposits Balances：NT$ 213.00 billion.

1.2.2.2 Average Loans Balances：NT$ 176.00 billion.

1.2.2.3 Foreign Exchange Sales：US$ 6.00 billion.

1.2.2.4 Commission and Service Fees：NT$ 0.531 billion.

1.3 Development Strategy in Future

1.3.1 Medium term goal: Transform the Bank's organization, expand operating size and grow to be an excellent bank among domestic banks.

The Bank will promote organizational re-engineering, increase operational performances for expanding operating size, causing business and finances to be stronger, and then the Bank will become an excellent bank among domestic banks.

1.3.2 Long term goal: The Bank shall become an excellent bank in Asia Pacific through consolidation and expanding the Bank's business territory.

Through consolidation, The Bank will expand the Bank's business territory and capital size while assuring shareholder's rights and to become an excellent bank in Asia Pacific.

1.4 The Impact of the external Competitive Environment, Regulatory Environment, and Macroeconomic Environment

1.4.1 External competitive environment

Regulators encourage the development of new payment services that serve the needs of the public. The government has completed the legislation process for "Regulations on the Control of Electronic Payment Institutions," which allows corporations that are not financial institutions to offer third-party payment services.

The financial industry is expected to face the competition and challenges from corporations that are not financial institutions but offer third-party payment services.

Additionally, regulators are actively promoting Bank 3.0 and simplifying the procedures for banks to offer electronic banking operations and services. To get a head start in the market, financial institutions all invest resources to create a beneficial digital financial environment. This condition not only saves time for customers when they execute transactions at branches but also reduces the cost of operation and manpower. Banks can gain customer loyalty and find new business models that help them survive and earn greater profits.

1.4.2 Regulatory environment

The revisions for four financial laws (Banking Act, Insurance Act, Financial Consumer Protection Act, and Offshore Banking Act) proposed by regulators affect our operation. The impacts of Banking Act and Financial Consumer Protection Act on the Bank are as follows:

The revision of Banking Act increases the amount of investment that the Bank can make because it changes the basis of the ceiling of investment from "capital" to "net equity." The other revision of this act is the interest rates on credit cards and personal loan cards. The ceiling on these interest rates is now below 15%. However, cardholders use very little revolving credit on these cards at the Bank. This revision has little effect on the profit of the Bank.

The revision of Financial Consumer Protection Act authorizes regulators to relieve responsible persons of their duties or revoke the business licenses of financial institutions in cases of material infractions that involve the improper sale of financial instruments. In terms of administrative fines for such infractions, the ceiling on the fines has been removed. This change will compel the Bank to pay more attention to protecting financial consumers lest the Bank be out of compliance with regulations.

1.4.3 Macroeconomic environment

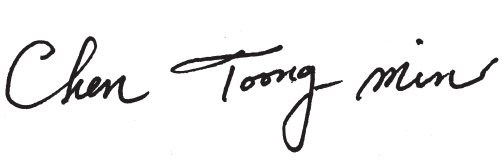
According to the forecasts of Global Insight, global economic growth in 2015 will be higher than that in 2014. In addition, the fact that Taiwan's semiconductor manufacturers continue to upgrade high-end manufacturing processes and expand production capacity and the fact that opportunities abound in smart devices such as the internet of things (IOT) are both beneficial to Taiwan's export. Benefiting from the stable growth of domestic economy, increase in corporate profits, improvements in employment and wages, and the effects of lower oil and electricity prices, consumer spending may continue to gain momentum.

The interest rate policy of the Central Bank remains neutral. The exchange rate of the New Taiwan Dollar is still dynamically managed. This condition helps maintain easing monetary conditions. However, in light of more robust financial oversight from regulators and increasingly popular third-party payment and mobile payment, as well as increasing risks in international financial fluctuations, Taiwan's financial markets will be full of challenges and uncertainties in 2015.

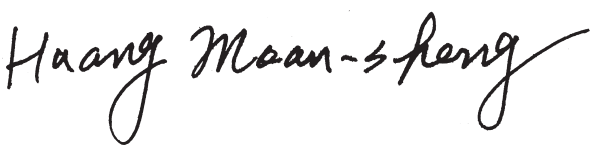
1.5 The Bank's Most Recent Credit Rating Result and Date of Rating

Taiwan Ratings Corp. announced that the Bank's long-term credit rating was "twBBB+", and short-term credit rating "twA-2". The outlook was rated as "stable".

Chairman



President



Directors Team of BOK

Chairman
Toong-Min Chen

Managing Director
Ruey-Tsang Lee

Independent Director and Managing Director
Wen-Yuan Lin

Managing Director
Li-Ming Hsu

Independent Director
Mei-Yueh Ho

Independent Director
Tzen-Ping Su

Director
Chen-Cheng Chien

Director
Richard Lee

Director
Chien-Tsai Chao

Director
Jueifang P. Chen

Director
Tsung-Kun Lee

Director
Chung-Hsin Liu