UNITED MICROELECTRONICS CORP
Form 20-F
April 29, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

o **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**
or

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2010
or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________
or

o **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of event requiring this shell company report __________
Commission file number 001-15128

United Microelectronics Corporation
(Exact Name of Registrant as Specified in its Charter)
Taiwan, Republic of China
(Jurisdiction of Incorporation or Organization)
No. 3 Li-Hsin Road II, Hsinchu Science Park,
Hsinchu City, Taiwan, Republic of China
(Address of Principal Executive Offices)
Peter Courture, +1 (650) 968-8855, peter@courture.com,
978 Highlands Circle, Los Altos, CA 94024, USA
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)
Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
American Depositary Shares, as evidenced by American Depositary Receipts, each representing 5 Common Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the Issuer s classes of capital or common stock as of the close of the period covered by the annual report.

12,987,912,315 Common Shares of Registrant issued as of December 31, 2010 (including 457,934,400 treasury shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: U.S. GAAP o

International Financial Reporting Standards as issued by the International Accounting Standards Board o Other þ

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No þ

UNITED MICROELECTRONICS CORPORATION
FORM 20-F ANNUAL REPORT
FISCAL YEAR ENDED DECEMBER 31, 2010
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SUPPLEMENTAL INFORMATION

The references to United Microelectronics , we , us , our , our company and the Company in this annual report r
United Microelectronics Corporation and its consolidated subsidiaries, unless the context suggests otherwise. The references to United Semiconductor , United Silicon , UTEK Semiconductor and United Integrated Circuits are to United Semiconductor Corporation, United Silicon Incorporated, UTEK Semiconductor Corporation and United Integrated Circuits Corporation, respectively. The references to Taiwan and R.O.C. refer to Taiwan, Republic of China. The references to shares and common shares refer to our common shares, par value NT$10 per share, and ADSs refers to our American depositary shares, each representing five common shares. The ADSs are issued under the Deposit Agreement, dated as of October 21, 2009, as amended, supplemented or modified from time to time, among United Microelectronics, JPMorgan Chase Bank, N.A. and the holders and beneficial owners from time to time of American Depositary Receipts issued thereunder. R.O.C. GAAP means the generally accepted accounting principles in the Republic of China and U.S. GAAP means the generally accepted accounting principles in the United States. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

We publish our financial statements in New Taiwan dollars, the lawful currency of the R.O.C. In this annual report, NT$ and NT dollars mean New Taiwan dollars, $, US$ and U.S. dollars mean United States dollars and ¥ me
Japanese Yen.

FORWARD-LOOKING STATEMENTS IN THIS ANNUAL REPORT MAY NOT BE REALIZED

Our disclosure and analysis in this annual report contain or incorporate by reference some forward-looking statements. Our forward-looking statements contain information regarding, among other things, our financial condition, future expansion plans and business strategy. We have based these forward-looking statements on our current expectations and projections about future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including, among other things:

- our dependence on frequent introduction of new product services and technologies based on the latest developments;
- the intensely competitive semiconductor, communications, consumer electronics and PC industries and markets;
- risks associated with our international business activities;
- our dependence on key personnel;
- general economic and political conditions, including those related to the semiconductor, communications, consumer electronics and PC industries;
- natural disasters, such as earthquakes and droughts, which are beyond our control;
- possible disruptions in commercial activities caused by natural and human-induced disasters and outbreaks of contagious diseases;
- fluctuations in foreign currency exchange rates;
- additional disclosures we make in our previous and future Form 20-F annual reports and Form 6-K periodic reports to the U.S. Securities and Exchange Commission; and
- those other risks identified in the Item 3. Key Information D. Risk Factors section of this annual report.

The words may , will , is/are likely to , anticipate , believe , estimate , expect , intend , plan and similar ex intended to identify a number of these forward-looking statements. We do not and will not undertake the obligation to update or revise any forward-looking statements contained in this annual report whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur and our actual results could differ materially from those anticipated in these forward-looking statements.

GLOSSARY

ASIC	Application Specific Integrated Circuit. A custom-designed integrated circuit that performs specific functions which would otherwise require a number of off-the-shelf integrated circuits to perform.
Cell	Semiconductor structure in an electrical state which can store a bit of information, mainly used as the building block of memory array.
Die	A piece of a semiconductor wafer containing the circuitry of an unpackaged single chip.
DRAM	Dynamic Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. It is the most common type of RAM and must be refreshed with electricity hundreds of times per second or else it will fade away.
FPGA	Field Programmable Gate Array. A programmable integrated circuit.
Integrated circuit	Entire electronic circuit built on a single piece of solid substrate and enclosed in a small package. The package is equipped with leads needed to electrically integrate the integrated circuit with a larger electronic system. Monolithic and hybrid integrated circuits are distinguished by the type of substrate used.
Interconnect	The conductive path made from copper or aluminum that is required to achieve connection from one circuit element to the other circuit elements within a circuit.
Mask	Photomask. A piece of glass on which an integrated circuit circuitry design is laid out.
Memory	A group of integrated circuits that a computer uses to store data and programs, such as ROM, RAM, DRAM and SRAM.
Micron	A unit of spatial measurement that is one-millionth of a meter.
Nanometer	A unit of spatial measurement that is one-billionth of a meter.
PC	Personal computer.
RAM	Random Access Memory. A type of volatile memory forming the main memory of a computer where applications and files are run.
ROM	Read-Only Memory. Memory that is programmed by the manufacturer and cannot be changed. Typically, ROM is used to provide start-up data when a computer is first turned on.
Scanner	

A photolithography tool used in the production of semiconductor devices. This camera-like step-and-scan tool projects the image of a circuit from a master image onto a photosensitized silicon wafer.

Semiconductor	A material with electrical conducting properties in between those of metals and insulators. Essentially, semiconductors transmit electricity only under certain circumstances, such as when given a positive or negative electric charge. Therefore, a semiconductor s ability to conduct can be turned on or off by manipulating those charges and this allows the semiconductor to act as an electric switch. The most common semiconductor material is silicon, used as the base of most semiconductor chips today because it is relatively inexpensive and easy to create.
SoC	System-on-Chip. A chip that incorporates functions currently performed by several chips on a cost-effective basis.
SOI	Silicon-On-Insulator. Silicon wafer consisting of a thin layer of oxide, on top of which semiconductor devices are built.
SRAM	Static Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. Unlike the more common DRAM, it does not need to be refreshed.
Transistor	Tri-terminal semiconductor device in which input signal (voltage or current depending on the type of transistor) controls output current. An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.
Volatile memory	Memory products which lose their data content when the power supply is switched off.
Wafer	Thin, round, flat piece of silicon that is the base of most integrated circuits.
8-inch wafer equivalents	Standard unit describing the equivalent amount of 8-inch wafers produced after conversion, used to quantify levels of wafer production for purposes of comparison. Figures of 8-inch wafer equivalents are derived by converting the number of wafers of all dimensions (e.g., 6-inch, 8-inch and 12-inch) into their equivalent figures for 8-inch wafers. 100 6-inch wafers are equivalent to 56.25 8-inch wafers. 100 12-inch wafers are equivalent to 225 8-inch wafers.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected balance sheet data as of December 31, 2009 and 2010 and the selected statements of income and cash flow data for the years ended December 31, 2008, 2009 and 2010 are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected balance sheet data as of December 31, 2006, 2007 and 2008 and the selected statements of income and cash flow data for the years ended December 31, 2006 and 2007 are derived from our audited consolidated financial statements not included in this annual report.

Our financial statements have been prepared and presented in accordance with R.O.C. GAAP, which differs in many material respects from U.S. GAAP. For the discussion of these differences, see Note 34 to our audited consolidated financial statements included elsewhere in this annual report. Some of the items in the statements of income, cash flow and balance sheets have been reconciled to U.S. GAAP and are set forth below. The summary financial data set forth below should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our financial statements and the notes to those statements included elsewhere in this annual report.

	Year Ended December 31,					
	2006	**2007**	**2008**	**2009**	**2010**	
	NT$	**NT$**	**NT$**	**NT$**	**NT$**	**US$**
	(in millions, except per share and per ADS data)					
Consolidated Statement of Income Data:						
R.O.C. GAAP						
Net operating revenues	112,004	113,311	96,814	91,390	126,442	4,339
Cost of goods sold	(91,690)	(90,072)	(84,102)	(75,975)	(89,518)	(3,072)
Gross profit	20,314	23,239	12,712	15,415	36,924	1,267
Operating expenses:						
Sales and marketing	(3,366)	(4,069)	(3,483)	(2,800)	(2,566)	(88)
General and administrative	(3,422)	(3,724)	(3,055)	(2,724)	(3,598)	(123)
Research and development	(9,419)	(9,631)	(8,274)	(8,044)	(8,740)	(300)
Total operating expenses	(16,207)	(17,424)	(14,812)	(13,568)	(14,904)	(511)
Operating income (loss)	4,107	5,815	(2,100)	1,847	22,020	756
Net non-operating income (loss)	32,480	13,855	(19,886)	(174)	3,364	115
Income (Loss) before income tax and minority interests	36,587	19,670	(21,986)	1,673	25,384	871
Income tax expense	(3,261)	(2,809)	(997)	(651)	(1,606)	(55)
Cumulative effect of changes in accounting principles (the net amount after deducted tax expense $0) (1)	(1,189)					
Extraordinary gain				649	68	2
Net income (loss)	32,137	16,861	(22,983)	1,671	23,846	818
Attributable to:						
the Company	32,619	16,962	(22,320)	3,874	23,899	820
minority interests	(482)	(101)	(663)	(2,203)	(53)	(2)
Earnings (Losses) per share: (2)(3)						
Basic	1.71	1.03	(1.70)	0.31	1.91	0.07
Diluted (5)	1.66	1.00	(1.70)	0.30	1.87	0.06
Shares used in earnings (losses) per share calculation: (3)						

Basic	19,029	16,464	13,111	12,699	12,496	12,496
Diluted [5]	19,687	16,943	13,170	12,786	12,768	12,768
Earnings (Losses) per ADS: [3]						
Basic	8.55	5.15	(8.50)	1.55	9.55	0.35
Diluted [5]	8.30	5.00	(8.50)	1.50	9.35	0.30
U.S. GAAP						
Net operating revenues	112,004	113,311	96,814	91,390	126,442	4,339
Cost of goods sold	(93,288)	(92,012)	(85,923)	(76,209)	(89,929)	(3,086)
Operating income (loss)	2,200	(19,992)	(22,431)	(2,323)	21,394	734
Net income (loss)	21,271	(9,398)	(29,632)	364	23,544	808
Attributable to:						
the Company	21,797	(9,264)	(28,955)	2,572	23,616	810
noncontrolling interests	(526)	(134)	(677)	(2,208)	(72)	(2)
Other comprehensive income (loss) attributable to the Company	(8,194)	(4,863)	(25,239)	24,540	(8,629)	(296)
Comprehensive income (loss) attributable to the Company	13,602	(14,127)	(54,194)	27,112	14,987	514
Earnings (Losses) per share: [2][4]						
Basic	1.42	(0.63)	(2.25)	0.21	1.91	0.07
Diluted [5]	1.37	(0.63)	(2.25)	0.20	1.90	0.07
Shares used in earnings (losses) per share calculation: [4]						
Basic	15,350	14,599	12,870	12,538	12,335	12,335
Diluted [5]	15,891	14,599	12,870	12,560	12,399	12,399
Earnings (Losses) per ADS: [4]						
Basic	7.10	(3.17)	(11.25)	1.03	9.57	0.33
Diluted [5]	6.87	(3.17)	(11.25)	1.02	9.52	0.33

	Year Ended December 31,					
	2006	2007	2008	2009	2010	
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except per share and per ADS data)					
Consolidated Balance Sheet Data:						
R.O.C. GAAP						
Current assets	132,344	81,111	68,888	102,363	93,769	3,218
Long-term investment	71,964	69,813	32,441	55,227	47,179	1,619
Property, plant and equipment	151,828	137,219	108,410	89,596	132,762	4,556
Total assets	367,653	299,558	216,399	253,638	280,887	9,639
Current liabilities	35,851	45,357	13,033	35,246	45,445	1,560
Long-term debt (excluding current portion)	30,383	7,495	8,130	767	6,799	233
Total liabilities	70,251	56,561	24,740	39,542	55,751	1,913
Stockholders equity	297,402	242,997	191,659	214,096	225,136	7,726
U.S. GAAP						
Cash and cash equivalents	61,649	47,678	40,017	54,413	51,034	1,751
Working capital (6)	95,779	35,111	55,525	67,162	48,322	1,658
Total assets	401,628	310,614	214,990	252,705	281,387	9,657
Total liabilities	71,226	56,795	24,099	39,465	56,264	1,931
Stockholders equity	330,402	253,819	190,891	213,240	225,123	7,726

	Year Ended December 31,					
	2006	2007	2008	2009	2010	
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except per share and per ADS data)					
Other Consolidated Data:						
R.O.C. GAAP						
Cash flow:						
Capital expenditure	33,240	28,299	11,515	17,618	61,290	2,103
Cash provided by operating activities	47,124	48,124	45,251	32,427	53,560	1,838
Cash used in investing activities	(16,595)	(21,844)	(11,423)	(19,234)	(57,843)	(1,985)
Cash provided by (used in) financing activities	(45,056)	(72,694)	(34,380)	4,944	(10,174)	(349)
Net increase (decrease) in cash and cash equivalents	(14,774)	(46,175)	889	17,586	(14,882)	(511)
Gross profit margin	18.1%	20.5%	13.1%	16.9%	29.2%	29.2%
Operating profit (loss) margin	3.7%	5.1%	(2.2)%	2.0%	17.4%	17.4%
Net profit (loss) margin	29.1%	15.0%	(23.0)%	4.2%	18.9%	18.9%
Capacity utilization rate (on an actual basis)	79.5%	81.9%	70.7%	69.4%	93.7%	93.7%
Dividends declared per share (7)	0.5	0.7	1.2		0.5	0.02
U.S. GAAP						

Cash flow:						
Capital expenditure	33,240	28,299	11,515	17,618	61,290	2,103
Cash provided by operating activities	46,385	45,785	44,953	32,427	53,560	1,838
Cash provided by (used in) investing activities	(9,775)	10,360	(19,973)	(22,424)	(46,341)	(1,590)
Cash provided by (used in) financing activities	(38,222)	(70,354)	(34,081)	4,944	(10,174)	(349)
Net increase (decrease) in cash and cash equivalents	(1,859)	(13,971)	(7,661)	14,396	(3,379)	(116)
Gross profit margin	16.7%	18.8%	11.3%	16.6%	28.9%	28.9%
Operating profit (loss) margin	2.0%	(17.6)%	(23.2)%	(2.5)%	16.9%	16.9%
Net profit (loss) margin	19.5%	(8.2)%	(29.9)%	2.8%	18.7%	18.7%

(1) We adopted R.O.C. SFAS No. 34, Financial Instruments: Recognition and Measurement and SFAS No. 36, Financial Instruments: Disclosure and Presentation to account for the financial instruments effective January 1, 2006. The changes in accounting principles resulted in an unfavorable cumulative effect of changes in accounting principles of NT$1,189 million to be deducted from consolidated net income for the year ended December 31, 2006.

(2) Earnings (Losses) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding during the year.

(3) Retroactively adjusted for all subsequent stock dividends; retroactively adjusted for employee stock bonus before 2008.

(4) Retroactively adjusted for the capital reduction completed in 2007 and all subsequent stock dividends.

(5) Diluted securities include convertible bonds and employee stock options, if any.

(6) Working capital equals current assets minus current liabilities.

(7) Dividends declared per share are in connection with earnings and accumulated additional paid-in capital.

(8) Refer to Note 34 to the audited consolidated financial statements included elsewhere in this annual report.

Currency Translations and Exchange Rates

In portions of this annual report, we have translated New Taiwan dollar amounts into U.S. dollars for the convenience of readers. The rate we used for the translations was NT$29.14 = US$1.00, which was the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2010. The translation does not mean that New Taiwan dollars could actually be converted into U.S. dollars at that rate. The following table shows the noon buying rates for New Taiwan dollars expressed in New Taiwan dollar per US$1.00. On April 22, 2011, the noon buying rate was NT$28.88 to US$1.00.

	Average[(1)]	High	Low	At Period-End
2006	32.51	33.31	31.28	32.59
2007	32.85	33.41	32.26	32.43
2008	31.52	33.58	29.99	32.76
2009	33.02	35.21	31.95	31.95
2010	31.50	32.43	29.14	29.14
October	30.81	31.30	30.42	30.60
November	30.32	30.52	30.12	30.47
December	29.90	30.37	29.14	29.14
2011 (through April 22)	29.25	29.76	28.78	28.88
January	29.11	29.36	28.98	29.03
February	29.28	29.76	28.78	29.74
March	29.49	29.63	29.35	29.40
April (through April 22)	29.04	29.31	28.85	28.88

Source: Federal Reserve Statistical Release, Board of Governors of the Federal Reserve System.

(1) Determined by averaging the rates on the last business day of each month during the relevant period for annual periods and the rates on each business day for monthly periods.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business and operations are subject to various risks, many of which are beyond our control. If any of the risks described below actually occurs, our business, financial condition or results of operations could be seriously harmed.

Risks Related to Our Business and Financial Condition

A global recession and credit crisis may cause significant disruptions to our major customers businesses as well as to their ability to access sources of liquidity. Demand for our products has been, and will continue to be, adversely affected by overall macroeconomic conditions.

Although the worldwide economic outlook began to improve in 2009, there has still been concern that many large economies, such as those in North America and Europe, may experience another recession in the near future. Should recession or disruption in these markets occur, the result may reverberate, triggering global recession and/or financial crisis. A global recession and credit crisis could have significant negative impact on our businesses. Our key markets and our targeted markets, including the United States and China, as well as other national economies, may enter a period of economic contraction or significantly slower economic growth in a global recession. In particular, a global economic crisis, weak consumer confidence, diminished consumer and business spending, and asset depreciation may contribute to a significant slowdown in the market demand for semiconductors and semiconductor-based end-products, which may lead to a decrease in demand for our services. The combined effects of a global recession

may have a material adverse impact on our results of operations, cash flows and financial condition, which may cause the price of our ADSs to decline.

In addition, many of our customers may experience difficulty in obtaining credit in a deteriorating economic environment, and even if they are able to obtain credit, the cost of such financing may increase and/or the time necessary to arrange such financing may be substantially prolonged. This lack of and increase in the cost of financing could have a material adverse effect on the financial condition of our customers. A protracted disruption in the ability of our customers to access sources of liquidity could cause serious disruptions to or an overall deterioration in their businesses, which could lead to the inability or failure on their part to meet their payment obligations to us.

The seasonality and cyclical nature of the semiconductor industry and periodic overcapacity make us particularly vulnerable to significant and sometimes prolonged economic downturns.

The semiconductor industry has historically been highly cyclical and, at various times, has experienced significant downturns. Since most of our customers operate in semiconductor-related industries, variations in order levels from our customers can result in volatility in our revenues and earnings. Because our business is, and will continue to be, largely dependent on the requirements of semiconductor companies for our services, downturns in the semiconductor industry will lead to reduced demand for our services. For example, the semiconductor industry experienced a slowdown that had begun in late 2008. This slowdown had, and similar slowdowns in the future may have, a material adverse effect on our revenues and business.

Our net operating revenues are also typically affected by seasonal variations in market conditions that contribute to the fluctuation of the average selling prices of semiconductor services and products. The seasonal sales trends for semiconductor services and products closely mirror those for consumer electronics, communication and computer sales. We generally experience seasonal lows in the demand for semiconductor services and products during the first half of the year, primarily as a result of inventory correction by our customers. Any change in the general seasonal variations, which we cannot anticipate, may result in materially adverse effects on our revenues, operations and businesses.

Our operating results fluctuate from quarter to quarter, which makes it difficult to predict our future performance.

Our revenues, expenses and results of operations have varied significantly in the past and may fluctuate significantly from quarter to quarter in the future due to a number of factors, many of which are beyond our control. Our business and operations have at times in the past been negatively affected by, and are expected to continue to be subject to the risk of, the following factors:

- the seasonality and cyclical nature of both the semiconductor industry and the markets served by our customers;
- our customers adjustments in their inventory;
- the loss of a key customer or the postponement of orders from a key customer;
- the rescheduling and cancellation of large orders;
- our ability to obtain equipment, raw materials, electricity, water and other required utilities on a timely and economic basis;

- outbreaks of contagious diseases, including severe acute respiratory syndrome, avian flu and swine flu;
- environmental events, such as fires and earthquakes, or industrial accidents; and
- technological changes.

Due to the factors noted above and other risks discussed in this section, many of which are beyond our control, you should not rely on quarter-to-quarter comparisons to predict our future performance. Unfavorable changes in any of the above factors may seriously harm our business, financial condition and results of operations. In addition, our operating results may be below the expectations of public market analysts and investors in some future periods. In this event, the price of the shares or ADSs may underperform or fall.

A decrease in demand for or selling prices of communication devices, consumer electronics and computer goods may decrease the demand for our services and reduce our margins.

Our customers generally use the semiconductors produced in our fabs in a wide variety of applications. We derive a significant percentage of our operating revenues from customers who use our manufacturing services to make semiconductors for communication devices, consumer electronics, PCs and other computers. The communications and PC markets experienced a sudden and substantial market downturn and inventory correction in part of 2005 and again beginning in 2008 due to a global recession. These downturns resulted in a reduced demand for our services and hence decreased our revenues and earnings. Any significant decrease in the demand for communication devices, consumer electronics, PCs or other computers may further decrease the demand for our services. In addition, if the average selling prices of communication devices, consumer electronics, PCs or other computers decline significantly, we will be pressured to further reduce our selling prices, which may reduce our revenues and, therefore, reduce our margins significantly. As demonstrated by downturns in demand for high technology products in the past, market conditions can change rapidly, without apparent warning or advance notice. In such instances, our customers will experience inventory buildup and/or difficulties in selling their products and, in turn, will reduce or cancel orders for wafers from us. The timing, severity and recovery of these downturns cannot be predicted accurately or at all. When they occur, our business, profitability and price of the shares and ADSs are likely to suffer.

Overcapacity in the semiconductor industry may reduce our revenues, earnings and margins.

The prices that we can charge our customers for our services are significantly related to the overall worldwide supply of integrated circuits and semiconductor products. The overall supply of semiconductor products is based in part on the capacity of other companies, which is outside of our control. For example, in light of the current market conditions, some companies, including our largest competitors, have announced plans to increase capacity expenditures significantly. We believe such plans, if carried out as planned, will increase the industry-wide capacity and are likely to result in overcapacity in the future. In periods of overcapacity, if we are unable to offset the adverse effects of overcapacity through, among other things, our technology and product mix, we may have to lower the prices we charge our customers for our services and/or we may have to operate at significantly less than full capacity. Such actions could reduce our margin and weaken our financial condition and results of operations. We cannot give any assurance that an increase in the demand for foundry services in the future will not lead to overcapacity in the near future, which could materially adversely affect our revenues, earnings and margins.

Any problem in the semiconductor outsourcing infrastructure can adversely affect our net operating revenues and profitability.

Many of our customers depend on third parties to provide mask tooling, assembly and test services. If these customers cannot timely obtain these services on reasonable terms, they may not order any foundry services from us. This may significantly reduce our net operating revenues and negatively affect our profitability.

We may be unable to implement new technology as it becomes available, which may result in our loss of customers and market share.

The semiconductor industry is developing rapidly and the related technology is constantly evolving. If we do not anticipate the technology evolution and rapidly adopt new and innovative technology, we may not be able to produce sufficiently advanced services at competitive prices. There is a risk that our competitors may adopt new technology before we do, resulting in our loss of market share. If we are unable to begin offering advanced services and processes on a competitive and timely basis, we may lose customers to our competitors providing similar technologies, which may cause our net operating revenues to decline unless we can replace lost customers with new customers.

We may be unable to provide leading technology to our customers if we lose the support of our technology partners.

Enhancing our manufacturing process technologies is critical to our ability to provide services for our customers. We intend to continue to advance our process technologies through internal research and development and alliances with other companies. Although we have an internal research and development team focused on developing new and improved semiconductor manufacturing process technologies, we are also dependent on some of our technology partners to advance certain process technology portfolios. In addition, we currently have patent cross-licensing agreements with several companies, including LSI Logic Corporation, or LSI, together with LSI s wholly-owned subsidiary, Agere Systems Inc., and International Business Machines Corporation, or IBM. Some mask and equipment vendors also supply our technology development teams with masks and equipment needed to develop more advanced processing technologies. If we are unable to continue any of our joint development arrangements, patent cross-licensing agreements and other agreements, on mutually beneficial economic terms, if we re-evaluate the technological and economic benefits of such relationships, if we are unable to enter into new technology alliances and arrangements with other leading and specialty semiconductor companies, or if we fail to secure masks and equipment from our vendors in a timely manner sufficient to support our ongoing technology development, we may be unable to continue providing our customers with leading edge mass-producible process technologies and may, as a result, lose important customers, which would have a materially adverse effect on our businesses, results of operations and financial condition.

In addition, some of our customers rely upon third party vendors, or IP Vendors, for the intellectual property they embed into their designs. Although we work and collaborate with IP Vendors with respect to such matters, there can be no guarantee that we will be successful or that the vendors will deliver according to our requirements or the needs of our customers. Failures to meet the targets or to deliver on a timely basis could cause customers to cancel orders and/or shift capacity to other suppliers.

Our business may suffer if we cannot compete successfully in our industry.

The worldwide semiconductor foundry industry is highly competitive. We compete with dedicated foundry service providers such as Taiwan Semiconductor Manufacturing Company Limited, Semiconductor Manufacturing International (Shanghai) Corporation and Globalfoundries Inc., as well as the foundry operation services of some integrated device manufacturers, such as IBM, Intel, Samsung Electronics, or Samsung, and Toshiba Corporation, or Toshiba. Integrated device manufacturers principally manufacture and sell their own proprietary semiconductor products, but may also offer foundry services. Other competitors such as DongbuAnam Semiconductor, Grace Semiconductor Manufacturing Corp., X-FAB Semiconductors Foundries AG and Silterra Malaysia Sdn. Bhd. have initiated efforts to expand and develop substantial additional foundry capacity. New entrants and consolidations in the foundry business, such as the acquisition of Chartered Semiconductor by Globalfoundries in 2009, are likely to initiate a trend of competitive pricing and create potential overcapacity in legacy technology. Some of our competitors have greater access to capital and substantially greater production, research and development, marketing and other resources than we do. As a result, these companies may be able to compete more aggressively over a longer period of time than we can.

The principal elements of competition in the wafer foundry market include:

- technical competence;
- time-to-volume production and cycle time;
- time-to-market;
- research and development quality;
- available capacity;
- manufacturing yields;
- customer service;
- price;
- management expertise; and
- strategic alliances.

Our ability to compete successfully also depends on factors partially outside of our control, including product availability and industry and general economic trends. If we cannot compete successfully in our industry, our business may suffer.

We may not succeed in our efforts to acquire operations in China and Japan.

R.O.C. law prohibits Taiwan entities from investment in mainland China-based semiconductor manufacturers without government approval. In March 2005, the Chairman of Infoshine Technology Limited, or Infoshine, the holding company which owned 100% of Hejian Technology (Suzhou) Co., Ltd., or Hejian, a semiconductor manufacturer owning an 8-inch fab in Suzhou, China, offered us 15% interest in Infoshine. Immediately after we received the offer, we filed an application with the Investment Commission of the R.O.C. MOEA for its executive guidance and disclosed our receipt of this offer to the investors and the public.

On April 29, 2009, our Board of Directors approved a proposed acquisition at their 19th session of the board meeting. Pursuant to the merger agreement, we proposed to pay the foreign owner of Infoshine stocks at the purchase price through a combination of issuance of securities in our company or in cash. In June 2009, our stockholders approved our proposed acquisition of Infoshine at our stockholders meeting. Upon consummation of the acquisition: (i) our company would be the surviving corporation; (ii) Infoshine would cease its corporate existence; (iii) all the assets and liabilities of Infoshine, along with its rights and obligations, would be assumed by our company in accordance with applicable laws; and (iv) with the previous acquisition of 15% interest in Infoshine, our company would obtain full ownership of Hejian. Consummation of the acquisition and the realization of the 15% interest are subject to the approval of the governmental authorities. In the past, the Taiwan government has not approved large-scale mergers with, or acquisitions of, semiconductor operations in China. Although the Taiwan government recently announced a more favorable view toward such transactions, there can be no guarantee that the government will approve our acquisition of Infoshine. Subsequent to our proposal, an investment regulation governing foreigners holdings of Taiwanese securities, along with restrictions from the amended Operating Rules of the Taiwan Stock Exchange Corporation for issuing new shares to acquire foreign unlisted companies, precluded the issuance of common shares or ADR as exclusive payment options. Furthermore, Hejian s stockholders did not agree to accept cash-only payments. After considering contractual timeliness and changes of the overall environment after signing of the contract, the Board of Directors resolved at a meeting on November 18, 2010 to terminate the acquisition agreement and issued a termination notice in accordance with that agreement.

To continue searching for further integration, on March 16, 2011, our Board of Directors proposed an offer to the stockholders of Best Elite International Limited, a British Virgin Islands corporation, or Best Elite, which owns 100% of the shares of Infoshine, thereby to obtain additional 30% ownership of Hejian Technology by purchasing their shares. Based on 0.65x of latest book value, Series A-1 holders would be offered around US$0.261931 per share, and Series B and B-1 stockholders would be offered around US$0.576248 per share. The acquisition amount would total approximately US$87 million, assuming that an equal amount of stockholders from each series accepts this offer. However, there can be no assurance our efforts in this regard will succeed.

In October 2009, our board of directors decided to obtain the common stock, preemptive rights and stock acquisition rights in UMC Japan, or UMCJ, through a tender offer to be made by our 100% owned subsidiary, Alpha Wisdom Limited, or AWL. After the tender offer which was held from October 29, 2009 to December 14, 2009, 403,368 shares of UMCJ were purchased, and we and AWL together held 94.79% of UMCJ shares. UMCJ then delisted from the Jasdaq Securities Exchange in accordance with its listing rules on March 19, 2010.

Since not all of the outstanding equity securities of UMCJ were acquired in the tender offer, we initiated certain squeeze-out procedures as provided in the Japanese Companies Act. Pursuant to such procedures, as of the end of 2010, we, together with AWL, owned 100% of UMCJ. On June 7, 2010, we acquired 63,000 shares of UMCJ from AWL and other minority stockholders for approximately JPY782 million. In accordance with R.O.C. SFAS 25, the excess fair value of UMCJ s identifiable net assets over the purchase price was allocated proportionately to UMCJ s noncurrent assets. When the book value of those noncurrent assets acquired is reduced to zero, the remaining excess was recognized as an extraordinary gain. Accordingly, we recognized an extraordinary gain of NT$82 million from the UMCJ transaction. The acquisition of UMCJ from AWL was accounted for as an organization restructuring in accordance with ARDF Interpretation No. 95-081. The purchase price of JPY12,500 per share of the above transaction was determined based on AWL s purchase price of UMCJ s shares during the period from October 29 to December 14, 2009, at which time AWL considered the shares current trading value and future industry competition and operating strategies and obtained a fairness opinion from a security expert and a Certified Public Accountant to evaluate the reasonableness of the purchase price. We acquired 4,000 shares of UMCJ from AWL, our equity investee, for approximately JPY48 million. Furthermore, AWL intends to file for liquidation through a decision of its board of directors. One of the former stockholders of UMCJ has challenged the purchase or acquisition price and has filed an action under Japanese law. Such action does not unwind or disable the acquisition, but merely seeks additional compensation for the former stockholder s shares. We intend to defend this claim and resist any additional payment. However, the only issue in the proceeding is the value to be paid; there is no material challenge to our ability to proceed with closing.

We compete for business on a global basis, and we believe it is necessary to establish and develop operations in multiple strategic geographic regions. We cannot assure you that the mergers and acquisitions we have undertaken will be closed successfully or that they will be closed on the terms we proposed. The failure to close these transactions or the failure to close them on terms as favorable as we have entered into and announced may impair our ability to realize the benefits we intend to achieve and have a material and adverse effect on our operations and business.

We may not be able to successfully integrate the operations to be acquired in Japan with our global activities.

Even after we successfully close the acquisition of UMCJ, we may not be able to integrate their operations with our current operations in accordance with the manners or the schedule or under the economic conditions we plan or target. In order to realize the benefits we expect from these transactions, we need to integrate the operations of the acquired facilities with our current facilities. Our ability to integrate the operations and facilities of UMCJ is dependent upon a number of factors, including:

- technical competence of UMCJ;
- management and engineering abilities of UMCJ;
- our ability to adapt UMCJ to our processes, practices and management approaches;
- our ability to optimize the process, equipment, capacity, customer and technology mix in our global operations;

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- communication and coordination between different locations; and
- cultural compatibility.

Failure to successfully integrate the operations of UMCJ in the time frame we plan, or at all, will adversely affect the benefits we expect to enjoy and may have material adverse effects on our business and operations.

Our profit margin may substantially decline if we are unable to continuously improve our manufacturing yields, maintain high capacity utilization and optimize the technology mix of our silicon wafer production.

Our ability to maintain our profitability depends, in part, on our ability to:

- maintain our capacity utilization, that is, the wafer-out quantity of 8-inch wafer equivalents divided by estimated total 8- inch equivalent capacity in a specified period. The estimated capacity numbers may differ depending upon equipment delivery schedules, pace of migration to more advanced process technologies and other factors affecting production ramp-ups;
- maintain or improve our manufacturing yield, that is, the percentage of usable manufactured devices on a wafer; and
- optimize the technology mix of our production, that is, the relative number of wafers manufactured utilizing different process technologies.

Our manufacturing yields directly affect our ability to attract and retain customers, as well as the price of our services. Our capacity utilization affects our operating results because a large percentage of our operating costs are fixed. Our technology mix affects utilization of our equipment and process technologies, as well as the prices we can charge, either of which can affect our margins. If we are unable to continuously improve our manufacturing yields, maintain high capacity utilization or optimize the technology mix of our wafer production, our profit margin may substantially decline.

We may not be able to implement our planned growth if we are unable to obtain the financing necessary to fund the substantial capital expenditures we expect to incur.

Our business and the nature of our industry require us to make substantial capital expenditures leading to a high level of fixed costs. We expect to incur significant capital expenditures in connection with our growth plans. These capital expenditures will be made in advance of any additional sales to be generated by new or upgraded fabs as a result of these expenditures. Given the fixed-cost nature of our business, we have in the past incurred, and may in the future incur, operating losses if our revenues do not adequately offset our capital expenditures. Additionally, our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in:

- our growth plan;
- our process technology;
- market conditions;
- interest rates;
- exchange rate fluctuations; and
- prices of equipment.

We cannot assure you that additional financing will be available on satisfactory terms, if at all. If adequate funds are not available on satisfactory terms, we may be forced to curtail our expansion plans or delay the deployment of our services, which could result in a loss of customers and limit the growth of our business.

We depend on a small number of customers for a significant portion of our net operating revenues and a loss of some of these customers would result in the loss of a significant portion of our net operating revenues.

We have been largely dependent on a small number of customers for a substantial portion of our business. In 2010, our top ten customers accounted for 63.2% of our net operating revenues. We expect that we will continue to be dependent upon a relatively limited number of customers for a significant portion of our net operating revenues. We cannot assure you that our net operating revenues generated from these customers, individually or in the aggregate, will reach or exceed historical levels in any future period. Loss or cancellation of business from significant changes in scheduled deliveries to, or decreases in the prices of services sold to, any of these customers could significantly reduce our net operating revenues.

Our customers generally do not place purchase orders far in advance, which makes it difficult for us to predict our future revenues, adjust production costs and allocate capacity efficiently on a timely basis.

Our customers generally do not place purchase orders far in advance (usually two months before shipment). In addition, due to the cyclical nature of the semiconductor industry, our customers purchase orders have varied significantly from period to period. As a result, we do not typically operate with any significant backlog, except in periods of extreme capacity shortage such as that experienced in late 2009 and early 2010. The lack of significant backlog and the unpredictable length and timing of semiconductor cycles make it difficult for us to forecast our revenues in future periods. Moreover, our expense levels are based in part on our expectations of future revenues and we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls. We expect that in the future our net operating revenues in any quarter will continue to be substantially dependent upon purchase orders received in that quarter.

Our inability to obtain, preserve and defend intellectual property rights could harm our competitive position.

Our ability to compete successfully and achieve future growth will depend, in part, on our ability to protect our proprietary technology and to secure critical processing technology that we do not own at commercially reasonable terms. We cannot assure you that in the future we will be able to independently develop, or secure from any third party, the technology required for upgrading our production facilities or for meeting our customer needs. Our failure to successfully obtain such technology may seriously harm our competitive position.

Our ability to compete successfully also depends on our ability to operate without infringing on the proprietary rights of others. We have no means of knowing what patent applications have been filed in the United States or in certain other countries until months after they are filed. The semiconductor industry, because of the complexity of the technology used and the multitude of patents, copyrights and other overlapping intellectual property rights, is characterized by frequent litigation regarding patent, trade secret and other intellectual property rights. It is common for patent owners to assert their patents against semiconductor manufacturers. We have received from time to time communications from third parties asserting patents that cover certain of our technologies and alleging infringement of intellectual property rights of others, and we expect to continue to receive such communications in the future. See Item 4. Information on the Company B. Business Overview Litigation for more details of our ongoing litigation. In the event any third party was to make a valid claim against us or against our customers, we could be required to:

- seek to acquire licenses to the infringed technology which may not be available on commercially reasonable terms, if at all;
- discontinue using certain process technologies, which could cause us to stop manufacturing certain semiconductors;
- pay substantial monetary damages; and/or
- seek to develop non-infringing technologies, which may not be feasible.

Any one of these developments could place substantial financial and administrative burdens on us and hinder our business. Litigation, which could result in substantial costs to us and diversion of our resources, may also be necessary to enforce our patents or other intellectual property rights or to defend us or our customers against claimed infringement of the rights of others. If we fail to obtain necessary licenses or if litigation relating to patent infringement or other intellectual property matters occurs, it could hurt our reputation as a technology leader in our industry and prevent us from manufacturing particular products or applying particular technologies, which could reduce opportunities to generate revenues.

Two of our former executives were charged with criminal offenses and our company was fined for violations of the Act Governing Relations Between Peoples of the Taiwan Area and the Mainland Area in connection with our alleged involvement in the operation of Hejian.

Hejian, a semiconductor manufacturer in Suzhou, China, was set up in December 2001. Soon after the establishment of Hejian, various rumors circulated that Hejian was set up by us. We immediately denied these rumors and clarified that we did not provide any capital nor did we transfer any technology to Hejian.

Nevertheless, in early 2006, the Hsinchu District Prosecutor s Office brought criminal charges in the Hsinchu District Court against our former Chairman, Robert H. C. Tsao and our former Vice Chairman, John Hsuan in connection with their alleged breach of fiduciary duties and certain alleged violations of the R.O.C. Commercial Accounting Act. Prior to such charges, both our former Chairman and former Vice Chairman resigned from their respective positions with our company. In October 2007, the Hsinchu District Court found our former Chairman and former Vice Chairman not guilty, but the Prosecutor s office filed an appeal with the Taiwan High Court in November 2007. On December 31, 2008, the Taiwan High Court rejected the prosecutor s appeal and sustained the Hsinchu District Court s decision. On January 20, 2009, Taiwan High Prosecutor s office filed a further appeal with the Supreme Court. On December 3, 2009, the Supreme Court reversed the decision of, and remanded the case to, the Taiwan High Court for a new trial on the prosecutor s appeal filed in November 2007. On September 14, 2010, the Taiwan High Court again ruled in our favor, finding our former Chairman and former Vice Chairman not guilty. The Prosecutor s Office did not file for an appeal within the time allowed and, therefore, this case is now closed in our favor.

The R.O.C. Financial Supervisory Commission, or the R.O.C. FSC, a regulatory authority that supervises securities, banking, futures, and insurance activities in Taiwan, also began their investigation into whether there had been any violation of R.O.C. securities laws by us relating to Hejian. In April 2005, our former Chairman was fined (1) NT$2.4 million by the R.O.C. FSC for our delay in making timely public disclosure (within two days) regarding the information relating to Hejian, which had been resolved in our board meeting on March 4, 2005, or the March 4 Resolution, and (2) NT$0.6 million for our failure to disclose the information regarding the assistance we had provided to Hejian. Our former Chairman s appeal in relation to such fines was overruled in early 2006, and our former Chairman filed a lawsuit in the Taipei Administrative High Court to challenge the R.O.C. FSC fines. In December 2007, the Taipei Administrative High Court revoked the R.O.C. FSC s decision and ruled in favor of our former Chairman. In January 2008, the R.O.C. FSC filed an appeal with the Supreme Administrative Court. On November 5, 2009, the Supreme Administrative Court denied the R.O.C. FSC s appeal. This case is now closed in favor of our former Chairman.

In connection with the March 4 Resolution, our company was also fined in the amount of NT$30,000 by the Taiwan Stock Exchange for an alleged delay in making public disclosure. After our former Chairman and former Vice Chairman were indicted by the prosecutor, our company was found by the R.O.C. Ministry of Economic Affairs, or the R.O.C. MOEA, to be in violation of the Act Governing Relations Between Peoples of the Taiwan Area and the Mainland Area and fined in the amount of NT$5 million for an alleged illegal investment in Hejian. Our appeal to the R.O.C. MOEA in relation to such fines was denied in late 2006. We filed an administrative lawsuit in December 2006 with the Taipei Administrative High Court to challenge the R.O.C. MOEA fine. In July 2007, the Taipei Administrative High Court revoked the R.O.C. MOEA s decision and ruled in our favor. In August 2007, the R.O.C. MOEA filed an appeal with the Supreme Administrative Court. On December 10, 2009, the Supreme Administrative Court reversed the decision of, and remanded the case to, the Taipei High Administrative Court for a new trial on our administrative lawsuit. On July 21, 2010, the Taipei High Court ruled against us and we appealed to the Supreme Administrative Court on August 23, 2010. This matter remains open, with the case now pending in the Supreme Administrative Court.

Our operations and business will suffer if we lose one or more of our key personnel without adequate replacements.

Our future success to a large extent depends on the continued service of our Chairman and key executive officers. We do not carry key person insurance on any of our personnel. If we lose the services of any of our Chairman or key executive officers, it could be difficult to find and integrate replacement personnel in a short period of time, which could harm our operations and the growth of our business.

We may have difficulty attracting and retaining skilled employees, who are critical to our future success.

The success of our business depends upon attracting and retaining experienced executives, engineers and other employees to implement our strategy. The competition for skilled employees is intense. We expect demand for personnel in Taiwan to increase in the future as new wafer fabrication facilities and other businesses are established in Taiwan. We also expect demand for experienced personnel in other locations to increase significantly as our competitors establish and expand their operations. Some of our competitors are willing to offer better compensation than that we do to our executives, engineers and other employees. We do not have long-term employment contracts with any of our employees. If we were unable to retain our existing personnel or attract, assimilate and recruit new experienced personnel in the future, it could seriously disrupt our operations and delay or restrict the growth of our business.

Our transactions with affiliates and stockholders may hurt our profitability and competitive position.

We have provided foundry services to several of our affiliates and stockholders. These transactions were conducted on an arm s-length basis. We currently do not provide any preferential treatment to any of these affiliates and stockholders. However, we may in the future reserve or allocate our production capacity to these companies if there is a shortage of foundry services in the market to enable these companies to maintain their operations and/or to protect our investments in them. This reservation or allocation may reduce our capacity available for our other customers, which may damage our relationships with other customers and discourage them from using our services. This may hurt our profitability and competitive position.

The differences between R.O.C. and U.S. accounting standards affect the amount of our net income.

Our financial statements are prepared under R.O.C. GAAP, which differ in certain significant respects from U.S. GAAP. For a discussion of these differences, see Note 34 to our audited consolidated financial statements included elsewhere in this annual report. As a result, our net income (loss) attributable to the Company in 2008, 2009 and 2010 under U.S. GAAP was NT$(28,955) million, NT$2,572 million and NT$23,616 million (US$810 million), respectively, as compared to net income (loss) attributable to the Company under R.O.C. GAAP of NT$(22,320) million, NT$3,874 million and NT$23,899 million (US$820 million) in 2008, 2009 and 2010, respectively.

The trend of adopting protectionist measures in certain countries, including the United States, could have a material adverse impact on our results of operations and financial condition.

Governments in the United States, China and certain other countries have implemented fiscal and monetary programs to stimulate economic growth as a result of the recent economic downturn, and many of these programs include protectionist measures that encourage the use of domestic products and labor. Recent policy developments by the governments in China and elsewhere also suggest an increased unwillingness to allow international companies to invest in or acquire local businesses. Since many of our direct customers and other downstream customers in the supply chain are located in or have operations in the countries where protectionist measures were adopted, such protectionist measures may have a material adverse effect on demand for our manufacturing services.

Any future outbreak of contagious diseases may materially and adversely affect our business and operations, as well as our financial condition and results of operations.

Any future outbreak of contagious diseases, such as avian or swine influenza or severe acute respiratory syndrome, may disrupt our ability to adequately staff our business and may generally disrupt our operations. If any of our employees is suspected of having contracted any contagious disease, we may under certain circumstances be required to quarantine such employees and the affected areas of our premises. Therefore, we may have to temporarily suspend part of or all of our operations. Furthermore, any future outbreak may restrict the level of economic activity in affected regions, including Taiwan, and affect the willingness and ability of our employees and customers to travel, which may also adversely affect our business and prospects. As a result, we cannot assure you that any future outbreak of contagious diseases would not have a material adverse effect on our financial condition and results of operations.

Risks Relating to Manufacturing

Our manufacturing processes are highly complex, costly and potentially vulnerable to impurities and other disruptions that can significantly increase our costs and delay product shipments to our customers.

Our manufacturing processes are highly complex, require advanced and costly equipment and are continuously being modified to improve manufacturing yields and product performance. Impurities or other difficulties in the manufacturing process or defects with respect to equipment or supporting facilities can lower manufacturing yields, interrupt production or result in losses of products in process. As system complexity has increased and process technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. Although we have been enhancing our manufacturing capabilities and efficiency, from time to time we have experienced production difficulties that have caused delivery delays and quality control problems, as is common in the semiconductor industry. In the past we have encountered the following problems:

- capacity constraints due to changes in product mix or the delayed delivery of equipment critical to our production, including scanners, steppers and chemical stations;
- construction delays during expansions of our clean rooms and other facilities;
- difficulties in upgrading or expanding existing facilities;
- manufacturing execution system or automatic transportation system failure;
- unexpected breakdowns in our manufacturing equipment and/or related facilities;
- changing or upgrading our process technologies;
- raw materials shortages and impurities; and
- delays in delivery and shortages of spare parts and in maintenance for our equipment and tools

Should these problems repeat, we may suffer delays in delivery and/or loss of business and revenues. In addition, we cannot guarantee that we will be able to increase our manufacturing capacity and efficiency in the future to the same extent as in the past.

We may have difficulty in ramping up production in accordance with our schedule, which could cause delays in product deliveries and decreases in manufacturing yields.

As is common in the semiconductor industry, we have from time to time experienced difficulties in ramping up production at new or existing facilities or effecting transitions to new manufacturing processes. As a result, we have suffered delays in product deliveries or reduced manufacturing yields. We may encounter similar difficulties in connection with:

- the migration to more advanced process technologies, such as 45/40- and 28 nanometer process technology;
- the joint development with vendors for more powerful tools (both in production and inspection) needed in the future to meet advanced process technology requirements; and
- the adoption of new materials in our manufacturing processes.

We may face construction delays, interruptions, infrastructure failure and delays in upgrading or expanding existing facilities, or changing our process technologies, any of which might adversely affect our production schedule. Our failure to follow our production schedule could delay the time required to recover our investments and seriously affect our profitability.

Our production schedules could be delayed and we may lose customers if we are unable to obtain raw materials and equipment in a timely manner.

We depend on our suppliers for raw materials. To maintain competitive manufacturing operations, we must obtain from our suppliers, in a timely manner, sufficient quantities of quality materials at acceptable prices. Although we source our raw materials from several suppliers, a small number of these suppliers account for a substantial amount of our supply of raw materials because of the consistent quality of these suppliers wafers. For example, in 2010, we purchased a majority of our silicon wafers from four makers, Shin-Etsu Handotai Corporation, or Shin-Etsu, Siltronic AG, MEMC Corporation and Sumco Group (including Sumco Corporation and Formosa Sumco Technology Corporation). We may have long-term contracts with most of our suppliers if necessary. From time to time, our suppliers have extended lead time or limited the supply of required materials to us because of capacity constraints. Consequently, from time to time, we have experienced difficulty in obtaining the quantities of raw materials we need on a timely basis.

In addition, from time to time we may reject materials that do not meet our specifications, resulting in declines in output or manufacturing yields. We cannot assure you that we will be able to obtain sufficient quantities of raw materials and other supplies in a timely manner. If the supply of materials is substantially diminished or if there are significant increases in the costs of raw materials, we may be forced to incur additional costs to acquire sufficient quantities of raw materials to sustain our operations, which may increase our marginal costs and reduce profitability.

We also depend on a limited number of manufacturers and vendors that make and maintain the complex equipment we use in our manufacturing processes. We also rely on these manufacturers and vendors to improve our technology to meet our customers demands as technology improves. In periods of unpredictable and highly diversified market demand, the lead time from order to delivery of this equipment can be as long as six to twelve months. If there are delays in the delivery of equipment or in the availability or performance of necessary maintenance, or if there are increases in the cost of equipment, it could cause us to delay our introduction of new manufacturing capacity or technologies and delay product deliveries, which may result in the loss of customers and revenues.

We may be subject to the risk of loss due to fire because the materials we use in our manufacturing processes are highly flammable.

We use highly flammable materials such as silane and hydrogen in our manufacturing processes and may therefore be subject to the risk of loss arising from fires. The risk of fire associated with these materials cannot be completely eliminated. We maintain insurance policies to reduce losses caused by fire, including business interruption insurance. While we believe that our insurance coverage for damage to our property and business interruption due to fire is consistent with semiconductor industry practice, our insurance coverage is subject to deductibles and self-insured retention and may not be sufficient to cover all of our potential losses. If any of our fabs were to be damaged or cease operations as a result of a fire, it would temporarily reduce manufacturing capacity and reduce revenues.

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We and many of our customers and suppliers are vulnerable to natural disasters and other events outside of our control, which may seriously disrupt our operations.

Most of our assets and many of our customers and suppliers are located in certain parts of Taiwan. Our operations and the operations of our customers and suppliers are vulnerable to earthquakes, floods, droughts, power losses and similar events that affect the locations of our operations. The occurrence of any of these events could interrupt our services and cause severe damages to wafers in process, or cause significant business interruptions. Although we maintain property damage and business interruption insurance for such risks, there is no guarantee that future damages or business loss from earthquakes will be covered by such insurance, that we will be able to collect from our insurance carriers, should we choose to claim under our insurance policies, or that such coverage will be sufficient. In addition, our manufacturing facilities have occasionally experienced insufficient power supplies, and our operations have been disrupted.

Our operations may be delayed or interrupted and our business could suffer if we violate environmental, safety and health, or ESH, regulations.

The semiconductor manufacturing process requires the use of various gases, chemicals, hazardous materials and other substances such as solvents and sulfuric acid which may have an impact on the environment. We are always subject to ESH regulations, and a failure to manage the use, storage, transportation, emission, discharge, recycling or disposal of raw materials or to comply with these ESH regulations could result in (i) regulatory penalties, fines and other legal liabilities, (ii) suspension of production or delays in operation and capacity expansion, (iii) a decrease in our sales, (iv) an increase in pollution cleaning fees and other operation costs, or (v) damage to our public image, any of which could harm our business. In addition, as ESH regulations are becoming more comprehensive and stringent, we may incur a greater amount of capital expenditures in technology innovation and materials substitution in order to comply with such regulations, which may adversely affect our results of operations.

Climate change may negatively affect our business.

There is increasing concern that climate change is occurring and may have dramatic effects on human activity without aggressive remediation steps. A modest change in temperature would result in increased coastal flooding, changing precipitation patterns and increasing risk of extinction for the world s species. Public expectations for reductions in greenhouse gas emissions could result in increased energy, transportation and raw material costs.

Scientific examination of, political attention to and rules and regulations on issues surrounding the existence and extent of climate change may result in an increase in the cost of production due to increase in the prices of energy and introduction of energy or carbon tax. A variety of regulatory developments have been introduced that focus on restricting or managing emissions of carbon dioxide, methane and other greenhouse gases. Enterprises may need to purchase at higher costs new equipment or raw materials with lower carbon footprints. These developments and further legislation that is likely to be enacted could affect our operations negatively. Changes in environmental regulations, such those on the use of perfluorinated compounds, could increase our production costs, which could adversely affect our results of operation and financial condition.

In addition, more frequent droughts and floods, extreme weather conditions and rising sea levels could occur due to climate change. The impact of such changes could be significant as most of our factories are located in islands including Taiwan and Singapore. For example, transportation suspension caused by extreme weather conditions could harm the distribution of our products. We cannot predict the economic impact, if any, of disasters or climate change.

Disruptions in the international trading environment may seriously decrease our international sales.
A substantial portion of our net operating revenues is derived from sales to customers located in countries other than Taiwan, Singapore and Japan where our fabs are located. In 2008, 2009 and 2010, sales to our overseas customers accounted for 70.2%, 61.8% and 62.5%, respectively, of our net operating revenues. We expect sales to customers outside of Taiwan, Singapore and Japan to continue to represent a significant portion of our net operating revenues. The success and profitability of our international activities depend on certain factors beyond our control, such as general economic conditions, labor conditions, political stability, tax laws, import duties and foreign exchange controls of the countries in which we sell our products, and the political and economic relationships between Taiwan, Singapore, Japan and these countries. As a result, our manufacturing services will continue to be vulnerable to disruptions in the international trading environment, including adverse changes in foreign government regulations, political unrest and international economic downturns.
These disruptions in the international trading environment affect the demand for our manufacturing services and change the terms upon which we provide our manufacturing services overseas, which could seriously decrease our international sales.

Political, Economic and Regulatory Risks

We face substantial political risks associated with doing business in Taiwan, particularly due to the tense relationship between the R.O.C. and the People s Republic of China, or the PRC, that could negatively affect the value of your investment.
Our principal executive offices and most of our assets and operations are located in Taiwan. Accordingly, our business, financial condition and results of operations and the market price of our shares and the ADSs may be affected by changes in R.O.C. governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan which are outside of our control. Taiwan has a unique international political status. Since 1949, Taiwan and the Chinese mainland have been separately governed. The PRC claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established during recent years between the R.O.C. and the PRC, relations have often been strained. The PRC government has refused to renounce the use of military force to gain control over Taiwan and, in March 2005, further passed an Anti-Secession Law that authorizes non-peaceful means and other necessary measures should Taiwan move to gain independence from the PRC. Past developments in relations between the R.O.C. and the PRC have on occasions depressed the market prices of the securities of companies in the R.O.C.. Such initiatives and actions are commonly viewed as having a detrimental effect to reunification efforts between the R.O.C. and the PRC. Relations between the R.O.C. and the PRC and other factors affecting military, political or economic conditions in Taiwan could materially and adversely affect our financial condition and results of operations, as well as the market price and the liquidity of our securities.

Our business depends on the support of the R.O.C. government, and a decrease in this support may increase our labor costs and decrease our net income after tax.
The R.O.C. government has been very supportive of technology companies such as us. For instance, the R.O.C. s labor laws and regulations do not require employees of semiconductor companies, including our company, to be unionized, and permit these employees to work shifts of 10 hours each day on a two-days-on, two-days-off basis. We cannot assure you, however, that these labor laws and regulations will not be changed in the future. In the event that the R.O.C. government requires our employees to be unionized or decreases the number of hours our employees may work in a given day, our labor costs may increase significantly which could result in lower margins.
We, like many R.O.C. technology companies, have benefited from substantial tax incentives provided by the R.O.C. government. In 2010, such incentives resulted in a tax credit in the amount of NT$731 million (US$25 million). Among the incentives broadly enjoyed by R.O.C. technology companies, various tax benefits granted under Chapter 2 and Article 70-1 of the Statute for Upgrading Industries expired on December 31, 2009. Despite the fact that we can still enjoy the five-year tax holidays for the relevant investment plans approved by R.O.C. tax authority before the expiration of the Statute for Upgrading Industries, if more incentives are curtailed or eliminated, our net income after tax attributable to us may decrease.

Our future tax obligations may adversely affect our profitability.

The R.O.C. government enacted the R.O.C. Income Basic Tax Act, also known as the Minimum Income Tax Statute , or the Statute, which became effective on January 1, 2006. This Statute imposes an alternative minimum tax, or AMT. The AMT is designed to remedy the current excessive tax incentives for individuals and businesses. The AMT imposed under the Statute is a supplemental tax which is payable if the income tax payable pursuant to the R.O.C. Income Tax Act is below the minimum amount prescribed under the Statute. For the purpose of calculating the AMT, the taxable income defined under the Statute includes most income that is exempted from income tax under various legislations, such as those providing tax holidays and investment tax credits. For businesses, the incomes which previously enjoyed tax-exemption privileges under relevant tax regulations, such as the Act for the Establishment and Administration of the Science Parks and the Statute for Upgrading Industries, will be subject to the new AMT system for the calculation of business taxpayers aggregate incomes. The AMT rate for business entities is 10%. Under the Statute, a company will be subject to a 10% AMT if its annual taxable income under the Statute exceeds NT$2 million. However, the Statute grandfathered certain tax exemptions granted prior to the enactment of the AMT. For example, businesses already qualified for five-year tax holidays and having obtained the applicable permission issued by the competent authority before December 31, 2005 may continue to enjoy tax incentives, and the income exempted thereunder will not to be added to the taxable income for the purpose of calculating the AMT, so long as the construction of their investment projects breaks ground within one year from January 1, 2006 and is completed within three years commencing from the day immediately following their receipts of the applicable permission issued by the competent authority. As the tax exemption periods expire or in the event of an increase in other taxable income subject to the Statute, such 10% AMT may adversely impact our net income after tax.

The trading price of the shares and ADSs may be adversely affected by the general activities of the Taiwan Stock Exchange and U.S. stock exchanges, the trading price of our shares, increases in interest rates and the economic performance of Taiwan.

Our shares are listed on the Taiwan Stock Exchange. The trading price of our ADSs may be affected by the trading price of our shares on the Taiwan Stock Exchange and the economic performance of Taiwan. The Taiwan Stock Exchange is smaller and, as a market, more volatile than the securities markets in the United States and a number of European countries. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities, and there are currently limits on the range of daily price movements on the Taiwan Stock Exchange. The Taiwan Stock Exchange is particularly volatile during times of political instability, such as when relations between Taiwan and the PRC are strained. Moreover, the Taiwan Stock Exchange has experienced problems such as market manipulation, insider trading and payment defaults, and the government of Taiwan has from time to time intervened in the stock market by purchasing stocks listed on the Taiwan Stock Exchange. The recurrence of these or similar problems could decrease the market price and liquidity of the shares and ADSs.

From September 19, 2000, the commencement date of the listing of our ADSs on the New York Stock Exchange, or the NYSE, to December 31, 2010, the daily reported closing prices of our ADSs ranged from US$14.88 per ADS to US$1.51 per ADS. The market price of the ADSs may also be affected by general trading activities on the U.S. stock exchanges, which recently have experienced significant price volatility with respect to shares of technology companies. Fluctuation in interest rates and other general economic conditions may also have an effect on the market price of the ADSs.

Currency fluctuations could increase our costs relative to our revenues, which could adversely affect our profitability.

More than half of our net operating revenues are denominated in currencies other than New Taiwan dollars, primarily U.S. dollars and Japanese Yen. On the other hand, more than half of our costs of direct labor, raw materials and overhead are incurred in New Taiwan dollars. Although we hedge a portion of the resulting net foreign exchange position through the use of foreign currency forward contracts, we are still affected by fluctuations in exchange rates among the U.S. dollar, the Japanese Yen, the New Taiwan dollar and other currencies. For example, during the period from August 31, 2010 to February 15, 2011, the U.S. dollar depreciated 8.06% against the NT dollar. Any significant fluctuation in exchange rates may be harmful to our financial condition. In addition, fluctuations in the exchange rate between the U.S. dollar and the New Taiwan dollar will affect the U.S. dollar value of the ADSs and the U.S. dollar

value of any cash dividends we pay, which could have a corresponding effect on the market price of the ADSs.

Compliance with the US Conflict Minerals Law may affect our ability or the ability of our suppliers to purchase raw materials at an effective cost.

Many industries rely on materials which are subject to regulation concerning certain minerals sourced from the Democratic Republic of Congo or adjoining countries, which include: Sudan; Uganda; Rwanda; Burundi; United Republic of Tanzania; Zambia; Angola; Congo; and Central African Republic. These minerals are commonly referred to as conflict minerals. Conflict minerals which may be used in our industry or by our suppliers include Columbite-tantalite (derivative of tantalum [Ta]), Cassiterite (derivative of tin [Sn]), gold [Au], Wolframite (derivative of tungsten [W]), and Cobalt [Co]. Under present regulations, we and our customers are required to survey and disclose whether our processes or products use or rely on conflict minerals. The SEC has proposed draft regulations that would require companies to disclose the use of conflict materials. Although we expect that we and our vendors will be able to comply with the requirements, there can be no guarantee that we will be able to gather all the information required. In addition, there is increasing public sentiment that companies should avoid using conflict materials from the DRC and adjoining countries. Although we believe our suppliers do not rely on such conflict materials, there can be no guarantee that we will continue to be able to obtain adequate supplies of materials needed in our production from supply chains outside the DRC and adjoining countries. A failure to obtain necessary information or to maintain adequate supplies of materials from supply chains outside the DRC and adjoining countries may delay our production, increasing the risk of losing customers and business.

Risks Related to the Shares and ADSs and Our Trading Markets

Restrictions on the ability to deposit shares into our ADS program may adversely affect the liquidity and price of the ADSs.

The ability to deposit shares into our ADS program is restricted by R.O.C. law. Under current R.O.C. law, no person or entity, including you and us, may deposit shares into our ADS program without specific approval of the R.O.C. FSC except for the deposit of the shares into our ADS program and for the issuance of additional ADSs in connection with:

(1) distribution of share dividends or free distribution of our shares;

(2) exercise of the preemptive rights of ADS holders applicable to the shares evidenced by ADSs in the event of capital increases for cash; or

(3) delivery of our shares which are purchased in the domestic market in Taiwan directly by the investor or through the depositary or are already in the possession of the investor to the custodian for deposit into our ADS program, subject to the following conditions: (a) the re-issuance is permitted under the deposit agreement and custody agreement, (b) the depositary may accept deposit of those shares and issue the corresponding number of ADSs with regard to such deposit only if the total number of ADSs outstanding after the issuance does not exceed the number of ADSs previously approved by the R.O.C. FSC, plus any ADSs issued pursuant to the events described in (1) and (2) above and (c) this deposit may only be made to the extent previously issued ADSs have been withdrawn.

As a result of the limited ability to deposit shares into our ADS program, the prevailing market price of our ADSs on the NYSE may differ from the prevailing market price of the equivalent number of our shares on the Taiwan Stock Exchange.

Holders of our ADSs will not have the same proposal or voting rights as the holders of our shares, which may affect the value of your investment.

Except for treasury shares and shares held by our subsidiaries which meet certain criteria provided under the R.O.C. Company Act, each common share is generally entitled to one vote and no voting discount will be applied. However, except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attached to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attached to the shares represented by the ADSs. The voting rights attached to the shares evidenced by our ADSs must be exercised as to all matters brought to a vote of stockholders collectively in the same manner.

Moreover, holders of the ADSs do not have individual rights to propose any matter for stockholders votes at our stockholders meetings. However, holders of at least 51% of the ADS outstanding at the relevant record date may request the depositary to submit to us one proposal per year for consideration at our annual ordinary stockholders meeting, provided that such proposal meets certain submission criteria and limitations, including the language and the length of the proposal, the time of submission, the required certification or undertakings, and the attendance at the annual ordinary stockholders meeting. A qualified proposal so submitted by the depositary will still be subject to review by our board of directors and there is no assurance that the proposal will be accepted by our board of directors for inclusion in the agenda of our annual ordinary stockholders meeting. Furthermore, if we determine, at our discretion, that the proposal submitted by the depositary does not qualify, we have no obligation to notify the depositary or to allow the depositary to modify such proposal.

Furthermore, if holders of at least 51% of the ADSs outstanding at the relevant record date instruct the depositary to vote in the same manner regarding a resolution, including election of directors and/or supervisors, the depositary will appoint our Chairman, or his designee, to represent the ADS holders at the stockholders meetings and to vote the shares represented by the ADSs outstanding in the manner so instructed. If by the relevant record date the depositary has not received instructions from holders of ADSs holding at least 51% of the ADSs to vote in the same manner for any resolution, then the holders will be deemed to have instructed the depositary to authorize and appoint our Chairman, or his designee, to vote all the shares represented by ADSs at his sole discretion, which may not be in your interest.

The rights of holders of our ADSs to participate in our rights offerings may be limited, which may cause dilution to their holdings.

We may from time to time distribute rights to our stockholders, including rights to acquire our securities. Under the deposit agreement, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings.

Changes in exchange controls that restrict your ability to convert proceeds received from your ownership of ADSs may have an adverse effect on the value of your investment.

Your ability to convert proceeds received from your ownership of ADSs depends on existing and future exchange control regulations of the Republic of China. Under the current laws of the Republic of China, an ADS holder or the depositary, without obtaining further approvals from the R.O.C. Central Bank of China, or the CBC, or any other governmental authority or agency of the Republic of China, may convert NT dollars into other currencies, including U.S. dollars, in respect of:

- the proceeds of the sale of shares represented by ADSs or received as share dividends with respect to the shares and deposited into the depositary receipt facility; and
- any cash dividends or distributions received from the shares represented by ADSs.

In addition, the depositary may also convert into NT dollars incoming payments for purchases of shares for deposit in the depositary receipt facility against the creation of additional ADSs. If you withdraw the shares underlying your ADSs and become a holder of our shares, you may convert into NT dollars subscription payments for rights offerings. The depositary may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights of new shares. Although it is expected that the CBC will grant approval as a routine matter, required approvals may not be obtained in a timely manner, or at all.

Under the Republic of China Foreign Exchange Control Law, the Executive Yuan of the Republic of China may, without prior notice but subject to subsequent legislative approval, impose foreign exchange controls or other restrictions in the event of, among other things, a material change in international economic conditions.

Our public stockholders may have more difficulty protecting their interests than they would as stockholders of a U.S. corporation.

Our corporate affairs are governed by our articles of incorporation and by laws governing R.O.C. corporations. The rights of our stockholders to bring stockholders suits against us or our board of directors under R.O.C. law are much more limited than those of the stockholders of U.S. corporations. Therefore, our public stockholders may have more difficulty protecting their interests in connection with actions taken by our management, members of our board of directors or controlling stockholders than they would as stockholders of a U.S. corporation. Please refer to Item 10. Additional Information B. Memorandum and Articles of Association Rights to Bring Stockholders Suits included elsewhere in this annual report for a detailed discussion of the rights of our stockholders to bring legal actions against us or our directors under R.O.C. law.

Holders of our ADSs will be required to appoint several local agents in Taiwan if they withdraw shares from our ADS program and become our stockholders, which may make ownership burdensome.

Non-R.O.C. persons wishing to withdraw shares represented by their ADSs from our ADS program and hold our shares represented by those ADSs are required to, among other things, appoint a local agent or representative with qualifications set forth by the R.O.C. FSC to open a securities trading account with a local brokerage firm, pay R.O.C. taxes, remit funds and exercise stockholders rights. In addition, the withdrawing holders are also required to appoint a custodian bank with qualifications set forth by the R.O.C. FSC to hold the securities in safekeeping, make confirmations, settle trades and report all relevant information. Without making this appointment and opening of the accounts, the withdrawing holders would not be able to subsequently sell our shares withdrawn from a depositary receipt facility on the Taiwan Stock Exchange. Under R.O.C. law and regulations, except under limited circumstances, PRC persons are not permitted to withdraw the shares underlying the ADSs or to register as a stockholder of our company. Under the Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland Area Investors promulgated by the R.O.C. Executive Yuan on April 30, 2009, as amended, only qualified domestic institutional investors, or QDIIs, are permitted to withdraw the shares underlying the ADSs, subject to compliance with the withdrawal relevant requirements, and only qualified domestic institutional investors, or QDIIs, and limited entities or individuals who meet the qualification requirements set forth therein are permitted to own shares of an R.O.C. company listed for trading on the Taiwan Stock Exchange, provided that among other restrictions generally applicable to investments made by PRC persons, their shareholdings are subject to certain restrictions as set forth in the abovementioned regulations and that such mainland area investors shall apply for a separate approval if their investment, individually or in aggregate, amounts to or exceeds 10 percent of the shares of any R.O.C. company.

You may not be able to enforce a judgment of a foreign court in the R.O.C..

We are a company limited by shares incorporated under the R.O.C. Company Act. Most of our assets and most of our directors, supervisors and executive officers and experts named in the registration statement are located in Taiwan. As a result, it may be difficult for you to enforce judgments obtained outside Taiwan upon us or such persons in Taiwan. We have been advised by our R.O.C. counsel that any judgment obtained against us in any court outside the R.O.C. arising out of or relating to the ADSs will not be enforced by R.O.C. courts if any of the following situations shall apply to such final judgment:

- the court rendering the judgment does not have jurisdiction over the subject matter according to R.O.C. law;
- the judgment or the court procedure resulting in the judgment is contrary to the public order or good morals of the R.O.C.;
- the judgment was rendered by default, except where the summons or order necessary for the commencement of the action was legally served on us within the jurisdiction of the court rendering the judgment within a reasonable period of time or with judicial assistance of the R.O.C.; or
- judgments of R.O.C. courts are not recognized in the jurisdiction of the court rendering the judgment on a reciprocal basis.

We may be considered a passive foreign investment company, which could result in adverse U.S. tax consequences for U.S. investors.

We do not believe that we were a passive foreign investment company, or PFIC, for 2010 and we do not expect to become one in the future, although there can be no assurance in this regard. Based upon the nature of our business activities, we may be classified as a passive foreign investment company for U.S. federal income tax purposes. Such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor.

For example, if we are a PFIC, our U.S. investors may become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, for any taxable year we will be classified as a PFIC for U.S. tax purposes if either (i) 75% or more of our gross income in a taxable year is passive income or (ii) the average percentage of our assets (which includes cash) by value in a taxable year which produce or are held for the production of passive income is at least 50%. The calculation of the value of our assets will be based, in part, on the quarterly market value of shares and ADSs, which is subject to change. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we have raised in prior offerings. See Taxation U.S. Federal Income Tax Considerations For U.S. Persons Passive foreign investment company.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is United Microelectronics Corporation, commonly known as UMC . We were incorporated under the R.O.C. Company Law as a company limited by shares in May 1980 and our shares were listed on the Taiwan Stock Exchange in 1985. Our principal executive office is located at No. 3 Li-Hsin Road II, Hsinchu Science Park, Hsinchu, Taiwan, Republic of China, and our telephone number is 886-3-578-2258. Our Internet website address is www.umc.com. The information on our website does not form part of this annual report. Our ADSs have been listed on the NYSE under the symbol UMC since September 19, 2000.

We are one of the world s largest independent semiconductor foundries and a leader in semiconductor manufacturing process technologies. Our primary business is the manufacture, or fabrication , of semiconductors, sometimes called chips or integrated circuits , for others. Using our own proprietary processes and techniques, we make chips to the design specifications of our many customers. Our company maintains a diversified customer base across industries, including communication, consumer electronics, computer, memory and others, while continuing to focus on manufacturing for high growth, large volume applications, including networking, telecommunications, internet, multimedia, PCs and graphics. We sell and market mainly wafers which in turn are used in a number of different applications by our customers. Percentages of our net wafer sales derived from our products used in communication devices, consumer electronics, PCs, memory and other applications were 54.3%, 30.7%, 12.2%, 1.0% and 1.8%, respectively, in 2010.

We focus on the development of leading mass-producible manufacturing process technologies. We were among the first in the foundry industry to go into commercial operation with such advanced capabilities as producing integrated circuits with line widths of 0.25, 0.18, 0.15, 0.13 micron and 90, 65 and 45/40 nanometer. Advanced technologies have enabled electronic products, especially in relation to computer, communication and consumer products, to integrate their functions in new and innovative methods. Networking capabilities have allowed electronic products such as computers, tablets, cell phones, televisions, PDAs, CD-ROMs and digital cameras to communicate with each other to exchange information. More powerful semiconductors are required to drive multimedia functions (e.g. processing visual data) and to resolve network bandwidth issues. At the same time, the trend toward personal electronic devices has resulted in products that are becoming physically smaller and consume less power. Process technology must also shrink the volumes of products aggressively to cater to this trend of integrating multiple functions, reducing the size of components needed for operation and lowering IC power consumption. Dedicated semiconductor foundries need to achieve this process improvement and at the same time develop multiple process technologies to satisfy the varying needs of computer, communication and consumer products. We believe our superior process technologies will enable us to continue to offer our customers significant performance benefits for their products, faster time-to-market production, cost savings and other competitive advantages.

We provide high quality service based on our performance. In today s marketplace, we believe it is important to make available not only the most manufacturable processes, but also the best solutions to enable customers to design integrated circuits that include entire systems on a chip. Through these efforts, we intend to be the foundry solution for SoC customer needs. To achieve this goal, we believe it is necessary to timely develop and offer the intellectual property and design support that customers need to ensure their specific design blocks work with the other design blocks of the integrated circuit system in the manner intended. Accordingly, we have a dedicated intellectual property and design support team which focuses on timely development of the intellectual property and process specific design blocks our customers need in order to develop products that operate and perform as intended. Our design service team actively cooperates with our customers and vendors of cell libraries and intellectual property offerings to identify, early in the product/market cycle, the offerings needed to ensure that these coordinated offerings are available to our customers in silicon verified form in a streamlined and easy-to-use manner. As a result, we are able to ensure the timely delivery of service offerings from the earliest time in the customer design cycle, resulting in a shorter time-to-volume production. We also provide our customers with real-time online access to their confidential production data, resulting in superior communication and efficiency. We further address our customers needs using our advanced technology and proven methodology to achieve fast cycle time, high yield, production flexibility and close customer communication. For example, we select and configure our clean rooms and equipment and develop our processes to maximize the flexibility in meeting and adapting to rapidly changing customer and industry needs. As a result, our cycle time, or the period from customer order to wafer delivery, and our responsiveness to customer request changes are among the fastest in the dedicated foundry industry. We also provide high quality service and engineering infrastructure.

Our production capacity is comparable to that of certain largest companies in the semiconductor industry, and we believe our leading edge and high volume capability is a major competitive advantage.

Our technology and service have attracted two principal types of foundry industry customers: fabless design companies and integrated device manufacturers. Fabless design companies design, develop and distribute proprietary semiconductor products but do not maintain internal manufacturing capacity. Instead, these companies depend on outside manufacturing sources. Integrated device manufacturers, in contrast, traditionally have integrated internally all functions manufacturing as well as design, development, sales and distribution.

Our primary customers, in terms of our sales revenues, include premier integrated device manufacturers, such as Texas Instruments, Infineon and STMicroelectronics, and leading fabless design companies, such as Xilinx, Broadcom, MediaTek, Realtek and Novatek. In 2010, our company s top ten customers accounted for 63.2% of our net operating revenues. We believe our success in attracting these customers is a direct result of our commitment to high quality service and our intense focus on customer needs and performance.

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For the disclosure related to our acquisition of Hejian, the contents of the Form 6-K we furnished to the Commission on April 29, 2009 (File No. 001-15128) are hereby incorporated by reference. At our annual stockholders meeting in 2009, the stockholders approved our proposed acquisition of Infoshine, the holding company of Hejian, with the acquisition subject to our ability to obtain the approvals from the necessary authorities pursuant to relevant laws and regulations. Hejian is engaged in the semiconductor foundry business and owns an 8-inch fab in Suzhou, China. Investment by an R.O.C. company in the PRC to engage in semiconductor foundry business is strictly regulated by the R.O.C. government. Traditionally, only manufacturing of semiconductor wafers of 8 inches or smaller sizes is permitted, and the number of total investment projects in the semiconductor foundry business undertaken by R.O.C. companies, taken as a whole, is subject to a quota. When our stockholders approved the acquisition, however, there was no quota available. In February 2010, the relevant restrictions were partially lifted, and the quota and the restriction on the size of semiconductor wafers produced are not applicable if (i) an investment is made through merger or acquisition; (ii) the rest of the applicable requirements, such as the processing technology gap between the R.O.C. company and its investment target, shall be satisfied; and (iii) the investment application is approved by the R.O.C. government, which approval is at the government s discretion. We plan to pursue approval of our acquisition of the holding company of Hejian, but there can be no guarantee that we will successfully obtain such approval. Moreover, an investment regulation governing foreigners holdings of Taiwanese securities, along with restrictions from the amended Operating Rules of the Taiwan Stock Exchange Corporation for issuing new shares to acquire foreign unlisted companies, presently precludes the issuance of common shares or ADR s as exclusive payment options for such an acquisition. Furthermore, Hejian s stockholders have not agreed to accept cash-only payments. To continue searching for further integration, on March 16, 2011, our Board of Directors proposed an offer to the stockholders of Best Elite, which owns 100% of the shares of Infoshine, to purchase their shares and thereby obtain additional 30% ownership of Hejian. However, we cannot assure you that our efforts in this regard will succeed.

For the disclosure related to our tender offer of UMCJ, the contents of the Forms 6-K we furnished to the Commission on October 28, 2009 (File No. 001-15128) and December 21, 2009 (File No. 001-15128) are hereby incorporated by reference. After the tender offer which was held from October 29, 2009 to December 14, 2009, 403,368 shares of UMCJ were purchased, and we and AWL together held 94.79% of UMCJ shares. UMCJ then delisted from the Jasdaq Securities Exchange in accordance with its listing rules on March 19, 2010. Since not all of the outstanding equity securities of UMCJ were acquired, we initiated certain squeeze-out procedures as provided in the Japanese Companies Act. Pursuant to such procedures, as of the end of 2010, we, together with AWL, owned 100% of UMCJ. On June 7, 2010, we acquired 63,000 shares of UMCJ from AWL and other minority stockholders for approximately JPY782 million. In accordance with R.O.C. SFAS 25, the excess fair value of UMCJ s identifiable net assets over the purchase price was allocated proportionately to UMCJ s noncurrent assets. When the book value of those noncurrent assets acquired are reduced to zero, the remaining excess was recognized as an extraordinary gain. Accordingly, we recognized an extraordinary gain of NT$82 million from the UMCJ transaction. The acquisition of UMCJ from AWL was accounted for as an organization restructuring in accordance with ARDF Interpretation No. 95-081. The purchase price of JPY12,500 per share of the above transaction was determined based on AWL s purchase price of UMCJ s shares during the period from October 29 to December 14, 2009, at which time AWL considered the shares current trading value and future industry competition and operating strategies and obtained a fair opinion from a security expert and a Certified Public Accountant to evaluate the reasonableness of the purchase price. We acquired 4,000 shares of UMCJ from AWL, our equity investee, for approximately JPY48 million. Furthermore, AWL intends to file for liquidation through a decision of its board of directors. One of the former stockholders of UMCJ has challenged the purchase or acquisition price, filing an action under Japanese law. Such action does not unwind or disable the acquisition, but merely seeks additional compensation for the former stockholder s shares. We intend to defend this claim, and to resist any additional payment. However, the only issue in the proceeding is the value to be paid; there is no material challenge to our ability to proceed with closing.

By owning 100% of UMCJ and proceeding with integration, we expect UMCJ to reap the benefits of economies of scale and efficiency of operations through developing business on a global basis with our company. The reorganization and restructuring of UMCJ are also expected to increase the efficiency of our operation and to increase our overall corporate value. We also believe the integration will be beneficial to UMCJ s customers, as it is expected to

enable UMCJ to offer more competitive globally-based services along with our company s broader range of technology and more competitive production capabilities.

Please refer to Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources for a discussion of our capital expenditures in the past three years and the plan for the current year.

Our Strategy

To maintain and enhance our position as a market leader, we have adopted a business strategy with a focus on a partnership business model designed to accommodate our customers business needs and objectives and to promote their interests as our partners. We believe that our success and profitability are inseparable from the success of our customers. The goal in this business model is to create a network of partnerships or alliances among integrated device manufacturers, intellectual property and design houses, as well as foundry companies. We believe that we and our partners will benefit from the synergy generated through such long-term partnerships or alliances and the added value to be shared among the partners. The key elements of our strategy are:

Operate as a Customer-Driven Foundry. We plan to operate as a customer-driven foundry. The increasing complexity of 45-nanometer and more advanced technologies has impacted the entire chip industry, as ICs can now be designed with greater gate density and higher performance while incorporating the functions of an entire system. These advanced designs have created a new proliferating market of advanced mobile digital devices such as smart phones, which have decreased in size but greatly increased in functionality. We collaborate closely with our customers as well as partners throughout the entire supply chain, including equipment, electronic design automation tool and intellectual property, or IP, vendors to work synergistically toward each customer s SoC silicon solution. We also possess experience and know-how in system design and architecture to integrate customer designs with advanced process technologies and IP. We believe the result is a higher rate of first-pass silicon success for our SoC solutions. Our customer-driven foundry solutions begin with a common logic-based platform, where designers can choose the process technologies and transistor options that best fit their specific application. From there, technologies such as radio frequency complementary metal-oxide-semiconductor, or RF CMOS, and embedded Flash memories can be used to further fine-tune the process for customers individual needs. Furthermore, as IP has become critical resources for SoCs, our portfolio includes basic design building blocks as well as more complex IP of optimized portability and cost, developed both internally and by third-party partners. With advanced technology, a broad IP portfolio, system knowledge and advanced 300-millimicron manufacturing, we offer comprehensive solutions that help customers deliver successful results in a timely fashion.

Build up Customer-focused Partnership Business Model. We have focused on building partnership relationships with our customers, and we strive to help our customers achieve their objectives through close cooperation. Unlike the traditional buy-and-sell relationship between a foundry and its customers, we believe our partnership business model will help us understand our customers requirements and, accordingly, better accommodate our customers needs in a number of ways, such as customized processes and services that optimize the entire value chain (not just the foundry portion) and intellectual property-related support. We believe that this business model will enable us to deliver our products to our customers at the earliest time our customers require for their design cycle, resulting in shorter time-to-market and time-to-volume production. Furthermore, we believe we will render more cost-effective services by focusing our research and development expenditures on the specific requirements of our customers. We believe our partnership business model will help us not only survive a market downturn, but also achieve a better competitive position.

Continue to Focus on High Growth Applications and Customers. We believe one measure of a successful foundry company is the quality of its customers. We focus our sales and marketing on customers who are established or emerging leaders in industries with high growth potential. Our customers include industry leaders such as AMD (ATI), Broadcom, Marvell, Infineon, MediaTek, Novatek, Realtek, SanDisk, STMicroelectronics, Texas Instruments, Freescale and Xilinx. We seek to maintain and expand our relationships with these companies. We strive to demonstrate to these customers the superiority and flexibility of our manufacturing, technology and service capabilities and to provide them with production and design assistance. We are also making efforts to further diversify our customer portfolio in order to maintain a balanced exposure to different applications and different customers. We believe these efforts strengthen our relationships with our customers and enhance our reputation in the semiconductor industry as a leading foundry service provider.

Maintain Our Leading Position in Mass-Producible Semiconductor Technology and Selectively Pursue Strategic Investments in New Technologies. We believe that maintaining and enhancing our leadership in mass-producible semiconductor manufacturing technology is critical to attract and retain customers. Our reputation for technological

excellence has attracted both established and emerging leaders in the semiconductor industries who work closely with us on technology development. In addition, we believe our superior processing expertise has enabled us to provide flexible production schedules to meet our customers particular needs. We plan to continue building internal research and development expertise, to focus on process development and to establish alliances with leading and specialty semiconductor companies to accelerate access to next-generation and specialized technologies. For example, we expect to deliver our 28-nanometer technology to our customers in 2011 to significantly increase the competitive advantages of our customers by providing better device performance in a smaller die size. We believe our progress in developing more advanced process technologies has benefited our customers in the fields of computers, communications, consumer electronics and others with special preferences in certain aspects of the products, such as the ultimate performance, density and power consumption.

We also recognize that every company has limited resources and that the foundry industry is ever-evolving. Accordingly, we believe we should invest in new research and development technology intelligently and in a cost-effective manner to achieve the ultimate output of the resulting technology. In doing so, we balance the rate of return of our research and development with the importance of developing a technology at the right time to enhance our competitive edge without unduly diluting our profitability. We intend to avoid investments in technologies that do not present a commercial potential for volume production. We believe that to develop the earliest and most advanced semiconductor technology without regard to its potential for near term volume production may prove costly to our operations and would not strengthen our competitive position. We perceive a benefit to defer investment in the premature equipment needed to claim the earliest advanced technology and instead to purchase a more advanced and less expensive version of equipment from vendors who design such equipment based on pre-production lessons learned from the earliest technology.

Maintain Scale and Capacity Capabilities to Meet Customer Requirements, with a Focus on 12-inch Wafer Facilities for Future Expansion. We believe that maintaining our foundry capacity with advanced technology and facilities is critical to the maintenance of our industry leadership. Our production capacity is currently among the largest of all semiconductor foundries in the world. We intend to increase our 12-inch wafer production capacity to meet the needs of our customers and to fully capitalize on the expected growth of our industry. Our future capacity expansion plans will focus on 12-inch wafer facilities in order to maintain our technology leadership. 12-inch wafers offer manufacturing advantages over 8-inch wafers due to, among other reasons, the greater number of chips on each wafer and the advantages only offered on newer 12-inch capable equipment. In addition, 12-inch wafer facilities present a more cost-effective solution in achieving an economic scale of production. We intend to carefully monitor current market conditions in order to optimize the timing of our capital spending.

B. Business Overview

Manufacturing Facilities

To maintain a leading position in the foundry business, we have placed great emphasis on achieving and maintaining a high standard of manufacturing quality. As a result, we seek to design and implement manufacturing processes that produce consistent, high manufacturing yields to enable our customers to estimate, with reasonable certainty, how many wafers they need to order from us. In addition, we continuously seek to enhance our production capacity and process technology, two important factors that characterize a foundry s manufacturing capability. Our large production capacity and advanced process technologies enable us to provide our customers with volume production and flexible and quick-to-market manufacturing services. All of our fabs operate 24 hours per day, seven days per week. Substantially all maintenance at each of the fabs is performed concurrently with production.

As a step in our continuing expansion of our manufacturing complex in the Tainan Science Park in southern Taiwan, we completed the construction of our second 300mm fab in Taiwan in May 2009, and moved the equipment into this fab in July 2010. Total investment for this fab will be around US$4.5~5 billion, with a maximum designed monthly production capacity of approximately 40,000 (300mm) wafers.

The following table sets forth operational data of each of our manufacturing facilities as of December 31, 2010.

	Fab 6A	**Fab 8A**	**Fab 8C**	**Fab 8D**	**Fab 8E**	**Fab 8F**	**Fab 8S**	**Fab 12A**	**Fab 12i**	**UMCJ**
Commencement of volume production	1989	1995	1998	2000	1998	2000	2000	2002	2004	1996
Estimated full capacity(1)(2)	49,300 wafers per months	68,000 wafers per months	30,000 wafers per months	28,000 wafers per months	35,100 wafers per months	32,500 wafers per months	25,500 wafers per months	32,170 wafers per months	43,807 wafers per months	20,000 wafers per Months
Wafer size	6-inch (150mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	8-inch (200mm)	12-inch (300mm)	12-inch (300mm)	8-inch (200mm)

(1) Measured in stated wafer size.

(2) The capacity of a fab is determined based on the capacity ratings given by manufacturers of the equipment used in the fab, adjusted for, among other factors, actual output during uninterrupted trial runs, expected down time due to set up for production runs and maintenance and expected product mix.

The following table sets forth the size and primary use of our facilities and whether such facilities, including land and buildings, are owned or leased. Our land in the Hsinchu and Tainan Science Parks is leased from the R.O.C. government.

Location	Size (Land/Building) (in square meters)	Primary Use	Land (Owned or Leased)	Building (Owned or Leased)
Fab 6A, 10 Innovation 1st Rd., Hsinchu Science Park, Hsinchu, Taiwan 30076, R.O.C.	27,898/34,609 6-inch wafer production	6-inch wafer production	Leased (expires in December 2026)	Owned
Fab 8A, 3 Li-Hsin 2nd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	43,468/83,699 8-inch wafer production	8-inch wafer production	Leased (expires in March 2014)	Owned
Fab 8C, 6 Li-Hsin 3rd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	24,678/71,427 8-inch wafer production	8-inch wafer production	Leased (expires in March 2016)	Owned
Fab 8D, 8 Li-Hsin 3rd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	8,036/29,181 8-inch wafer production	8-inch wafer production	Leased (expires in March 2016)	Owned
Fab 8E, 17 Li-Hsin Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	35,000/76,315 8-inch wafer production	8-inch wafer production	Leased (expires in February 2016)	Owned
Fab 8F, 3 Li-Hsin 6th Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	24,180/65,736 8-inch wafer production	8-inch wafer production	Leased (expires in February 2018)	Owned
Fab 8S, 16 Creation 1st Rd., Hsinchu Science Park, Hsinchu, Taiwan 30077, R.O.C.	20,404/65,614 8-inch wafer production	8-inch wafer production	Leased (expires in December 2023)	Owned
Fab 12A, 18, 20 Nan-Ke 2nd Rd., Tainan Science Park, Sinshih, Tainan, Taiwan 74147, R.O.C.	113,661/316,456 12-inch wafer production	12-inch wafer production	Leased (expires in November 2030)	Owned
Fab 12i, 3 Pasir Ris Drive 12 Singapore 519528	85,737/142,169 12-inch wafer production	12-inch wafer production	Leased (expires in March 2031)	Owned
UMCJ, 1580, Yamamoto, Tateyama-City, Chiba, Japan	387,551/61,111 8-inch wafer production	8-inch wafer production	83% owned, 17% leased (expires in June 2049)	96% Owned, 4% Leased

United Tower, 3 Li-Hsin 2nd Rd., Hsinchu Science Park, Hsinchu, Taiwan 30078, R.O.C.	8,818/85,224 Administration office	Administration office	Leased (expires in March 2014)	Owned
Neihu Rd. office, 8F,68.Sec. 1,Neihu Rd., Taipei Taiwan 11493, R.O.C.	626/4,817 Administration office	Administration office	Owned	Owned
Testing Building, 1, Chin-Shan, St. 7, Hsinchu, Taiwan 30080, R.O.C.	10,762/41,318 Leased to several companies	Leased to several companies	Owned	Owned
R&D Building, 18 Nan-Ke 2nd Rd., Tainan Science Park, Sinshih, Tainan, Taiwan 74147, R.O.C.	42,000/47,501 Research and development	Research and development	Leased (expires in December 2023)	Owned

Location	Size (Land/Building) (in square meters)	Primary Use	Land (Owned or Leased)	Building (Owned or Leased)
Nexpower, No.2, Houke S.Rd., Houli Township, Taichung, Taiwan 42152, R.O.C.	90,634/78,212 Sun power production	Sun power production	Leased (expires in December 2026)	Owned
Topcell, No. 1560, Sec. 1, Zhongshan Rd., Guanyin Township, Taoyuan, Taiwan 32852, R.O.C.	16,873/29,124 6-inch cell production	6-inch cell production	Leased (expires in March 2018)	Leased (expires in March 2018)

Process Technology

Process technology is a set of specifications and parameters that we implement for manufacturing the critical dimensions of the patterned features of the circuitry of semiconductors. Our process technologies are currently among the most advanced in the foundry industry. These advanced technologies have enabled us to provide flexible production schedules to meet our customers particular needs.

The continued enhancement of our process technologies has enabled us to manufacture semiconductor devices with smaller geometries, allowing us to produce more dice on a given wafer. We pioneered the production of semiconductor products with 0.25 and 0.18 micron process technology in 1997 and 1999, respectively, and used copper interconnect metallurgic to allow better reliability and higher conductibility than traditional aluminum interconnects. We began volume production using 0.13-micron process technology in 2002. Our extensive experience in the 0.13-micron process technology has helped smooth our transition to 90- nanometer pilot production. Our 90-nanometer process marks further advance in our technology achievements, incorporating up to nine copper metal layers, triple gate oxide and other advanced features and using chrome-less phase-shift masks. This technology has been in volume production since the second quarter of 2004 after passing several product certifications. In 2005, our research and development teams continued to work closely with the manufacturing staff to finalize our 90-nanometer technology portfolio. These collaborative efforts, performed in our best-in-class 300mm facilities, contributed to the improvement of high density 6T-SRAM yield to the maturity level of more than 90%. Our accomplishments led to multiple design awards followed by first silicon success, including a PC graphic IC and the world s first 90-nanometer Wireless Local Area Network (WLAN) RF chip featuring a unique and specially developed inductor scheme. In addition, we were able to develop, within 6 months, several customized 90-nanometer processes tailored to our customers device specifications, and demonstrated product success by delivering record high yield for the first product lots. Our first fully-functional 65-nanometer wireless digital baseband customer IC was produced in July of 2005, after only a year since this research and development project began at this facility.

Since the third quarter of 2006, we have begun the mass production of a next-generation 65-nanometer FPGA product, which features a 65% logic capacity increase over previous generation of FPGAs with triple gate oxide and 11 copper metal layers. Our 65- nanometer development team is not only independently developing our technologies in-house but is also bringing up customized process technologies to match customer specific needs. Furthermore, our 45/40-nanometer process technologies, which are jointly developed by us and our strategic partners have been in production since the first half of 2009, significantly increasing the competitive advantages of our customers by providing better device performance in a smaller die size.

The table below sets forth our actual process technology range, categorized by line widths, or the minimum physical dimensions of the transistor gate of integrated circuits in production by each fab, in 2010, and the estimated annual full capacity of each fab, actual total annual output and capacity utilization rates in 2008, 2009 and 2010:

	Year of Commencement of Operation	Year ended December 31, 2010 Range of Process) Technologies (in microns)	Year Ended December 31, 2008	2009	2010
			(in thousands of 8-inch wafer equivalents, except percentages)		
Fab					
Fab 6A	1989	0.5	328	328	332
Fab 8A	1995	0.5 to 0.25	816	816	816
Fab 8C	1998	0.35 to 0.13	400	402	366
Fab 8D	2000	0.18 to 0.09	260	270	314
Fab 8E	1998	0.5 to 0.15	408	408	410
Fab 8F	2000	0.25 to 0.13	374	381	387
Fab 8S	2000	0.25 to 0.13	294	300	303
Fab 12A	2002	0.18 to 0.028	884	888	842
Fab 12i	2004	0.13 to 0.065	743	815	1,022
UMCJ	1996	0.35 to 0.15	240	240	240
Total estimated capacity			4,747	4,848	5,031
Total output (actual)			3,355	3,362	4,713
Average capacity utilization			70.7%	69.4%	93.7%

The table below sets forth a breakdown of number and percentage of wafer output by process technologies in 2008, 2009 and 2010.

	Year Ended December 31, 2008		2009		2010	
	(in thousands of 8-inch wafer equivalents, except percentages)					
Technology						
65 nanometers and under	147	4.3%	270	8.0%	761	16.1%
90 nanometers	701	21.0	605	18.0	584	12.4
0.13 micron	555	16.5	602	17.9	997	21.2
0.15 micron	258	7.7	269	8.0	367	7.8
0.18 micron	587	17.5	587	17.4	611	13.0
0.25 micron	110	3.3	76	2.3	144	3.0
0.35 micron	728	21.7	655	19.5	766	16.3
0.50 micron or higher	269	8.0	298	8.9	483	10.2
Total	3,355	100.0%	3,362	100.0%	4,713	100.0%

Capacity and Utilization

The fabs in Taiwan that we own directly are named Fab 6A, Fab 8A, Fab 8C, Fab 8D, Fab 8E, Fab 8F and Fab 8S, all of which are located in the Hsinchu Science Park in Taiwan, and Fab 12A, which is located in the Tainan Science Park in Taiwan. The fab in Singapore is named Fab 12i. The fab in Japan is named UMCJ.

Our average capacity utilization rate was, 70.7% in 2008, 69.4% in 2009 and 93.7% in 2010.

Equipment

Considering the performance and productivity of our manufacturing capability highly rely on the quality of our capital equipment, we generally purchase equipment that cannot only meet the demand of our existing process technology, but also has the capability to be upgraded to match our future needs. The principal equipment we use to manufacture semiconductor devices are scanners/steppers, cleaners and track equipment, inspection equipment, etchers, furnaces, wet stations, strippers, implanters, sputters, CVD equipment, probers, testers and so on. We own all of the production equipment except for a few demonstration tools.

Our policy is to purchase high-quality equipment that demonstrates stable performance from vendors with dominate market share to ensure our continued competitiveness in the semiconductor field.

Some of the equipment is available from a limited number of qualified vendors and/or is manufactured in relatively limited quantities, and some equipment has only recently been developed. We believe that our relationships with equipment suppliers are strong enough that we can leverage our position as a major purchaser to purchase equipment on better terms, including shorter lead time, than the terms received by several other foundries.

Although we face the challenge of procuring the right equipment in sufficient quantity necessary for ramp-up or expansion of our fabrication facilities under constraint of short lead times, we have not in the past experienced any material problems in procuring the latest generation equipment on a timely basis even in periods of unpredictably high market demand. We manage the risks in the procurement process through timely internal communications among different divisions, efficient market information collection, early reservation of appropriate delivery slots and constant communications with our suppliers as well as by utilizing our good relationships with the vendors.

Raw Materials

Our manufacturing processes use many raw materials, primarily silicon wafers, chemicals, gases and various types of precious sputtering targets. These raw materials are generally available from several suppliers. Our policy with respect to raw material purchases, similar to that for equipment purchases, is to select only a small number of qualified vendors who have demonstrated quality and reliability on delivery time of the raw materials. We may have any long-term supply contracts with our vendors if necessary.

Our general inventory policy is to maintain sufficient stock of each principal raw material for production and rolling forecasts of near-term requirements received from customers. In addition, we have agreements with several key material suppliers under which they hold similar levels of inventory in their warehouses for our use. However, we are not under any obligation to purchase raw material inventory that is held by our vendors for our benefit until we actually order it. We typically work with our vendors to plan our raw material requirements on a quarterly basis, with indicative pricing generally set on a quarterly basis. The actual purchase price is generally determined based on the prevailing market conditions. In the past, prices of our principal raw materials have not been volatile to a significant degree. Although we have not experienced any shortage of raw materials that had a material effect on our operations, and supplies of raw materials we use currently are adequate, shortages could occur in various critical materials due to interruption of supply or an increase in industry demand.

The most important raw material used in our production processes is silicon wafer, which is the basic raw material from which integrated circuits are made. The principal makers for our wafers are Shin-Etsu, Siltronic AG, MEMC Corporation and Sumco Group. We have in the past obtained and believe that we will continue to be able to obtain a sufficient supply of silicon wafers. We believe that we have close working relationships with our wafer suppliers. Based on such long-term relationships, we believe that these major suppliers will use their best efforts to accommodate our demand.

We use a large amount of water in our manufacturing process. We obtain water supplies from government-owned entities and recycle approximately 85% of the water that we use during the manufacturing process. We also use substantial amounts of dual loop electricity supplied by Taiwan Power Company in the manufacturing process. We maintain back-up generators that are capable of providing adequate amounts of electricity to maintain the required air pressure in our clean rooms in case of power interruptions. We believe our back-up devices are adequate in preventing business interruptions caused by power outages and emergency situations.

Quality Management

We believe that our advanced process technologies and reputation for high quality and reliable services and products have been important factors in attracting and retaining leading international and domestic semiconductor companies as customers.

We structure our quality management system in accordance with the latest international quality standards and our customers strict quality and reliability requirements. Our quality management system incorporates comprehensive quality control programs into the entire business flow of foundry operation including, among others, new process development management, production release control, incoming raw material inspection, statistical process control and methodology development, process change management, technical documentation control, product final inspection, metrology tool calibration and measurement system analysis, quality audit program, nonconformity management, customer complaint disposition, eight-discipline problem solving and customer satisfaction monitoring. We set a high quality goal to ensure consistent high yielding and reliable product performance. Our quality program is continually enhanced through top-down annual Business Policy Management and bottom-up Total Quality Management activities. In addition, our efforts to observe best practices among fabs in the foundry industry have also contributed to the improvement of our overall quality management system.

Many of our customers perform physical production site qualification process in the early development phase and routine quality conformance audits in the volume production phase. These audits include both quality system review and physical fabrication area inspection for verification of conformity with the international quality standard and customers quality requirement. Our quality management system and quality control programs have been qualified and routinely audited by numerous customers who are recognized as world-class semiconductor companies with best-in-class quality standards.

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Our Quality Assurance Division and Reliability Technology and Assurance Division collaborate to provide quality and reliability performance to customers. With our wafer processing quality and reliability conformance monitor program, we monitor the product quality and reliability at various stages of the entire manufacturing process before shipment to customers.

All our fabs are certified in compliance with ISO/TS 16949 and QC080000 IECQ HSPM standards. ISO/TS 16949 sets the criteria for developing a fundamental quality management system emphasizing on customer satisfaction in quality management, continual improvement, defect prevention and variation and waste reduction. QC080000 IECQ HSPM sets the criteria for developing a process management system for hazardous substances and focuses on developing environmentally friendly manufacturing processes. We are committed to continuously improve our quality management system and to deliver high quality product to our customers.

Services and Products

We primarily engage in wafer fabrication for foundry customers. To optimize fabrication services for our customers, we work closely with them as they finalize circuit design and contract for the preparation of masks to be used in the manufacturing process. We also offer our customers turnkey services by providing subcontracted assembly and test services. We believe that this ability to deliver a variety of foundry services in addition to wafer fabrication enables us to accommodate the needs of a full array of integrated device manufacturers, system companies and fabless design customers with different in-house capabilities.

Wafer manufacturing requires many distinct and intricate steps. Each step in the manufacturing process must be completed with precision in order for finished semiconductor devices to work as intended. The processes require taking raw wafers and turning them into finished semiconductor devices generally through five steps: circuit design, mask tooling, wafer fabrication, assembly and test. The services we offer to our customers in each of these five steps are described below.

Circuit Design. At this initial design stage, our engineers generally work with our customers to ensure that their designs can be successfully and cost-effectively manufactured in our facilities. We have assisted an increasing number of our customers in the design process by providing them with access to our partners electronic design analysis tools, intellectual property and design services as well as by providing them with custom embedded memory macro-cells. In our Silicon Shuttle program, we offer customers and intellectual property providers early access to actual silicon samples with their desired intellectual property and content in order to enable early and rapid use of our advanced technologies. The Silicon Shuttle program is a multi-chip test wafer program that allows silicon verification of intellectual property and design elements. In the Silicon Shuttle program, several different vendors can test their intellectual property using a single mask set, greatly reducing the cost of silicon verification for us and the participating vendors. The high cost of masks for advanced processes makes this program attractive to intellectual property vendors. ARM Limited, Faraday Technology Corp., or Faraday Technology, MIPS Technologies International, Virage Logic Corporation (recently acquired by Synopsys) and Synopsys Inc. have utilized our Silicon Shuttle program. In our Alliance Program, we coordinate with leading suppliers of intellectual property, design and ASIC services to ensure their offerings are available to our customers in an integrated, easy to use manner which matches customers need to our technologies. With a view to lowering customer design barriers, we expanded our design support functions from conventional design support to adding intellectual property development to complement third-party intellectual properties and to provide customers with the widest range of silicon-verified choices. Our offerings range from design libraries to basic analog mixed-mode intellectual properties which, together, have helped shorten our customer s design cycle time.

Mask Tooling. Our engineers generally assist our customers to design and/or obtain masks that are optimized for our advanced process technologies and equipment. Actual mask production is usually provided by independent third parties specializing in mask tooling.

Wafer Fabrication. As described above, our manufacturing service provides all aspects of the wafer fabrication process by utilizing a full range of advanced process technologies. During the wafer fabrication process, we perform procedures in which a photosensitive material is deposited on the wafer and exposed to light through the mask to form transistors and other circuit elements comprising a semiconductor. The unwanted material is then etched away, leaving only the desired circuit pattern on the wafer. As part of our wafer fabrication services, we also offer wafer

probing services, which test, or probe, individual die on the processed wafers and identify dice that fail to meet required standards. We prefer to conduct wafer probing internally to obtain speedier and more accurate data on manufacturing yield rates.

Assembly and Testing. We offer our customers turnkey services by providing the option to purchase finished semiconductor products that have been assembled and tested. We outsource assembly and test services to leading assembly and test service providers, including Siliconware Precision Industries Co., Ltd., or Siliconware, and Advanced Semiconductor Engineering Inc. in Taiwan. After final testing, the semiconductors are shipped to our customers designated locations.

Customers and Markets

Our primary customers, in terms of our sales revenues, include premier integrated device manufacturers, such as Texas Instruments, Infineon and STMicroelectronics, and leading fabless design companies, such as Xilinx, Broadcom, MediaTek, Realtek and Novatek. Although we are not dependent on any single customer, a significant portion of our net operating revenues have been generated from sales to a few customers. Our top ten customers accounted for approximately 63.2% of our net operating revenues in 2010. Set forth below is a geographic breakdown of our operating revenues in 2008, 2009 and 2010.

	Year Ended December 31,		
Region	**2008**	**2009**	**2010**
Taiwan	29.8%	38.2%	37.5%
Asia (excluding Taiwan)	5.1	10.6	15.2
North America	55.4	50.2	47.3
Europe	9.7	1.0	0.0
Total	100.0%	100.0%	100.0%

We believe our success in attracting these end customers is a direct result of our commitment to high quality service and our intense focus on customer needs and performance. Because we are an independent semiconductor foundry, most of our operating revenue is generated by our sales of wafers. For 2010, net wafer sales represents 95.0% of our net operating revenue, and excludes revenue from testing, mask and other services. The following table presents the percentages of our net wafer sales by types of customers during the last three years.

	Year Ended December 31,		
Customer Type	**2008**	**2009**	**2010**
Fabless design companies	73.2%	79.2%	78.1%
Integrated device manufacturers	26.8	20.8	21.9
Total	100.0%	100.0%	100.0%

We focus on providing a high level of customer service in order to attract customers and maintain their ongoing loyalty. Our culture emphasizes responsiveness to customer needs with a focus on flexibility, speed and accuracy throughout our manufacturing and delivery processes. Our customer-oriented approach is especially evident in two types of services: customer design development services and manufacturing services. We believe that our large production capacity and advanced process technology enable us to provide better customer service than many other foundries through shorter turn-around time, greater manufacturing flexibility and higher manufacturing yields.

We work closely with our customers throughout the design development and prototyping processes. Our design support team closely interacts with customers and intellectual property vendors to facilitate the design process and to identify their specific requirements for intellectual property offerings. We are responsive to our customers requirements in terms of overall turn-around time and production time-to-market by, for example, helping our customers streamline their IP offering processes and delivering prototypes in a timely and easy-to-use fashion. We also maintain flexibility and efficiency in our technical capability and respond quickly to our customers design changes.

For IP offerings, we work with several leading IP vendors from digital, memory and analog fields in the semiconductor industry, such as Faraday Technology Corp., Synopsys Inc., ARM Limited, and eMemory Technology Inc., to deliver quality IP blocks that have been silicon validated using our advanced processes. Our alliance programs with major electronic design automation vendors, such as Cadence, Magma, Mentor and Synopsys Inc., provide our customers with digital/analog reference design procedures and easy-to-use design solutions. By continuously enhancing our IP offerings, reference design procedures and design services through collaboration with major vendors, we aim to provide complete, accurate and user-friendly design solutions to our customers.

As a design moves into manufacturing production, we continue to provide ongoing customer support through all phases of the manufacturing process. The local account manager works with our customer service representative to ensure the quality of our services, drawing upon our marketing and customer engineering support teams as required. We offer an online service, MyUMC , which gives our customers easy access to our foundry services by providing a total online supply chain solution. MyUMC offers 24-hour access to detailed account information such as manufacturing, engineering and design support documents through each customer s own customized start page. The features that are available to customers through MyUMC include (i) viewing the status of orders from the start of production to the final shipping stages; (ii) designing layouts to shorten customers tape out time; (iii) collecting customer engineering requests; (iv) gathering and downloading documents for design purposes; (v) and accessing online in real-time the same manufacturing data used by our fab engineers. In addition, we have a system-to-system connecting service to provide direct data exchange between our system and our customers systems. In order to continue to improve our information security management, our information technology division received ISO/IEC 27001:2005 certification in March 2008.

We price our products on a per die or per wafer basis, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer and our capacity utilization. Our main sales office is located in Taiwan, which is in charge of our sales activities in Asia. United Microelectronics (Europe) BV, our wholly-owned subsidiary based in Amsterdam, assists our sales to customers in Europe. Our sales in North America are made through UMC Group (USA), our subsidiary located in Sunnyvale, California.

We typically designate a portion of our wafer manufacturing capacity to some of our customers primarily under two types of agreements: reciprocal commitment agreements and deposit agreements. Under a reciprocal commitment agreement, the customer agrees to pay for, and we agree to supply, a specified capacity at a specified time in the future. Under a deposit agreement, the customer makes in advance a cash deposit for an option on a specified capacity at our fabs for a stated period of time. Option deposits are credited to wafer purchase prices as shipments are made. If this customer does not use the specified capacity, it will forfeit the deposit but, in certain circumstances and with our permission, the customer may arrange for a substitute customer to utilize such capacity. In some cases, we also make available capacity to customers under other types of agreements, such as capacity commitment arrangements with technology partners.

We advertise in trade journals, organize technology seminars, hold a variety of regional and international sales conferences and attend a number of industry trade fairs to promote our products and services. We also publish a corporate newsletter for our customers.

Competition

The worldwide semiconductor foundry industry is highly competitive, particularly during periods of overcapacity and inventory correction. We compete internationally and domestically with dedicated foundry service providers as well as with integrated device manufacturers and final product manufacturers which have in-house manufacturing capacity or foundry operations. Some of our competitors have substantially greater production, financial, research and development and marketing resources than we have. As a result, these companies may be able to compete more aggressively over a longer period of time than we can. In addition, several new dedicated foundries have commenced operations and compete directly with us. Any significant increase in competition may erode our profit margins and weaken our earnings.

We believe that our primary competitors in the foundry services market are Taiwan Semiconductor Manufacturing Company Limited, Semiconductor Manufacturing International (Shanghai) Corporation and Globalfoundries Inc., as well as the foundry operation services of some integrated device manufacturers such as IBM, Samsung, Intel and Toshiba. Other competitors such as DongbuAnam Semiconductor, Grace Semiconductor Manufacturing Corp., X-FAB Semiconductors Foundries AG and Silterra Malaysia Sdn. Bhd. have initiated efforts to develop substantial new foundry capacity, although much of such capacity involves less cost-effective production than the 12-inch fabs for which we possess technical know-how. New entrants in the foundry business are likely to initiate a trend of competitive pricing and create potential overcapacity in legacy technology. The principal elements of competition in the semiconductor foundry industry include technical competence, production speed and cycle time, time-to-market,

research and development quality, available capacity, manufacturing yields, customer service and price. We believe that we compete favorably with the new competitors on each of these elements, particularly our technical competence and research and development capabilities.

Intellectual Property

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our production processes and activities. To that end, we have acquired certain patents and patent licenses and intend to continue to seek patents on our production processes. As of December 31, 2010, we held 3,751 U.S. patents and 6,170 patents issued outside of the United States.

Our ability to compete also depends on our ability to operate without infringing on the proprietary rights of others. The semiconductor industry is generally characterized by frequent claims and litigation regarding patent and other intellectual property rights. As is the case with many companies in the semiconductor industry, we have from time to time received communications from third parties asserting patents that allegedly cover certain of our technologies and alleging infringement of certain intellectual property rights of others. We expect that we will receive similar communications in the future. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and devote significant management resources to the defense of these claims, which could seriously harm our company. See Item 3. Key Information D. Risk Factors Our inability to obtain, preserve and defend intellectual property rights could harm our competitive position.

In order to minimize our risks from claims based on our manufacture of semiconductor devices or end-use products whose designs infringe on others intellectual property rights, we in general accept orders only from companies that we believe enjoy satisfactory reputation and for products that are not identified as risky for potential infringement claims. Furthermore, we obtain indemnification rights from customers. We also generally obtain indemnification rights from equipment vendors to hold us harmless from any losses resulting from any suit or proceedings brought against our company involving allegation of infringement of intellectual property rights on account of our use of the equipment supplied by them.

We have entered into various patent cross-licenses with major technology companies, including a number of leading international semiconductor companies, such as IBM, Renesas (and formerly Hitachi), Freescale (and formerly Motorola) and LSI. Our cross licenses may have different terms and expiry dates. Depending upon our competitive position and strategy, we may or may not renew our cross licenses and further and we may enter into additional technology and/or intellectual property licenses in the future.

Research and Development

We spent NT$8,274 million, NT$8,044 million and NT$8,740 million (US$300 million) in 2008, 2009 and 2010, respectively, on research and development, which represented 8.6%, 8.8% and 6.9% respectively, of our net operating revenues for these periods. Our research and development efforts are mainly focused on delivering SoC foundry solutions that consist of the world s leading process technologies, customer support services and manufacturing techniques. These resources provide our foundry customers with improved opportunities to develop SoC products that supply the global market. Our commitment to research and development can be illustrated by our 2010 research and development expenditures, which reached approximately 6.9% of net operating revenues. In June 2007, we completed the construction of a research and development center for nanometer technologies in the Tainan Science Park. The research and development center allows for seamless application of advanced process technology in the research and development phase to the manufacturing phase.

As of March 31, 2011, we employed 1,084 professionals in our research and development activities. In addition, other management and operational personnel are also involved in research and development activities but are not separately identified as research and development professionals.

Our Investments

Depending on the market conditions, we intend to gradually reduce our investments through secondary equity offerings, exchangeable bond offerings and other measures available to our company.

We issued exchangeable bonds of US$235 million due 2007 in May 2002, and exchangeable bonds of US$206 million due 2008 in July 2003. The first bonds were exchangeable, at the option of the bondholders, into common shares or American depositary shares of AU Optronics, and the second bonds were exchangeable into common shares of AU Optronics. As of December 31, 2004, all bondholders of the Exchangeable Bonds due 2008 had exercised their rights to exchange their bonds into common shares of AU Optronics. Prior to the maturity date of May 10, 2007, 99.9% of the bondholders of the Exchangeable Bonds due 2007 had exercised their rights to exchange their bonds into common shares or American depositary shares of AU Optronics. We redeemed all of the remaining bonds outstanding in the principal amount of US$0.3 million. We sold 78 million common shares of AU Optronics in 2007. As of December 31, 2007, we did not have any common shares of AU Optronics.

We issued two tranches of zero coupon exchangeable bonds due 2014 in December 2009. The two exchangeable bond offerings consist of $127.2 million bonds exchangeable into common shares of Unimicron Technology Corporation, or Unimicron, and $80 million bonds exchangeable into common shares of Novatek Microelectronics Corp., Ltd., or Novatek. As of December 31, 2010, no bonds had been exchanged into common shares of Unimicron and Novatek, respectively.

On March 16, 2011, our board of directors authorized the issuance of up to US$500 million principal value of unsecured zero coupon euro convertible bonds. The proceeds of this contemplated offering would be used for purchasing machinery and equipment. Any offering of convertible bonds would be subject to market conditions and the approval of Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C..

In 2008, we sold 5 million common shares of MediaTek for NT$1,673 million. In 2009, we sold 2 million common shares of MediaTek for NT$809 million. In 2010, we did not sell any common shares of MediaTek. As of December 31, 2010, we did not have any common shares of MediaTek.

In addition, we sold 3.6 million common shares of ITE Tech. Inc., or ITE, for NT$137 million and 6.3 million common shares of Holtek Semiconductor Inc., or Holtek, for NT$253 million in 2008. In 2009, we sold 0.5 million common shares of ITE for NT$35 million. We did not sell any common shares of Holtek in 2009. In 2010, we sold 0.2 million common shares of ITE for NT$11 million (US$0.4 million), 0.2 million common shares of Holtek for NT$9 million (US$0.3 million) and 96 million common shares of Mega Financial Holding Company, or Mega, for NT$1,903 million (US$65 million). As of March 31, 2011, we held 14.84%, 16.19% and nil in ITE, Holtek and Mega, respectively.

In recent years many developed and developing countries have listed energy saving and carbon reduction as primary administrative policies to tackle the challenge of potential energy shortages in future. Technologies for renewable energy and energy saving are expected to become a focus in future technology development and the growth of green energy related industries is predictable. On August 24, 2009, our Board of Directors approved the establishment of our New Business Development Center and its 100% owned subsidiary, UMC New Business Investment Corporation. As of December 31, 2010, the paid-in capital of the New Business Development Center is NT$3 billion. We established the New Business Development Center to capitalize on high growth and high profit in potential industries such as solar, LED and semiconductor through timely strategic investment. In the short to mid-term, we plan to complete the development of related technologies and establish a preliminary scale of operations. For the long term, as key proficiencies mature and resource integration is complete, the new energy business is expected to become one of our core businesses. We expect these measures will position us well for future growth.

Environmental, Safety and Health Matters

UMC implemented extensive ESH management systems since 1996. These systems enable our operations to identify applicable ESH regulations, assist in evaluating compliance status and timely establish loss preventive and control measures. The systems we implemented in all our fabs have been certified as meeting the ISO 14001 and OHSAS 18001 standards. ISO 14001 consists of a set of standards that provide guidance to the management of organizations to achieve an effective environmental management system. Procedures are established at manufacturing locations to ensure that all accidental spills and discharges are properly addressed. OHSAS 18001 is a recognizable occupational health and safety management system standard, which may be applied to assess and certify our management systems. Our goal in implementing ISO 14001 and OHSAS 18001 systems is to continually improve our ESH management, comply with ESH regulations and to be a sustainable green foundry. UMC s major ESH policies include:

Environmental Protection Aspects:

- To be an environmentally friendly enterprise characterized by continual improvement with a goal of pollution-free production;
- To incorporate our environmental management system into the general organizational management system;
- To take initiatives to reduce waste production and prevent pollution by introducing and developing environmentally friendly technology for design, production and operation;
- To conserve energy and recycle resources in order to be a model of environmental protection for the international community;
- To fulfill corporate social responsibilities by playing an active role in public and community affairs to improve and protect the environment;
- To educate employees about environmentally sound ethics and practices.

Safety and Health Aspects :

- To achieve a goal of zero accidents and comply with all applicable safety and regulatory requirements to ensure safety is the top priority for UMC s sustainable development.
- To reinforce best safety and health management practice to reach international ESH and risk management standards.
- To adopt risk control advanced ESH management and rescue technologies to enhance company s standards.
- To provide safe work environment and operation through preventive management and audit.
- To eliminate hazard factors and prevent incidents through each and every ownership of responsibilities in safety and health.
- To encourage all employees to actively participate in safety and health training and promotional activities.

As a member of the global community and a semiconductor industry leader, we have implemented measures to deal with environmental problems and mitigate climate change. We have introduced green concepts in our operations, including green commitment, management, procurement, production, products, recycling, office, education and marketing.

In order to conquer the green barrier formed by the ROHS (the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment) Directive, we established a cross-division HSPM (Hazardous Substances Process Management) committee to manage all development and implementation of related work. We completed the final system audit for QC 080000 ICEQ HSPM qualification, a certification for having a hazardous substance process management system that meets the RoHS Directive, on June 9, 2006 and became the first semiconductor manufacturer worldwide to achieve HSPM certification for all fabs. In 2009, we completed the report on the carbon footprint verification for integrated circuit wafers produced at our facilities, the first such report in the foundry industry. In 2010, UMC completed water footprint verification for our 200 mm and 300 mm wafers. These verifications provide scientific and reliable statistics on the carbon and water information of products manufactured in our fabs as well as self-reviews of environmental impact.

With respect to safety and health management, we realized that lowering the risks in equipment and processes can reduce accidents, but cannot guarantee the safety of all employees. In order to achieve the goal of zero-accident , we intend to promote the concept of safety is my responsibility . We have educated the employees with the concepts of be aware of your own safety well as the safety of others and safety is everyone s responsibility, and my personal accountability.

Furthermore, we have implemented the FMEA method to foster employees capabilities in risk analysis. Therefore, we established a channel for communication to encourage and ensure the employees to fully express their opinions for professional response and assistance. By doing so, we hope to establish a working attitude of Safety and health first to further improve the quality of our working environment, and eventually to become a good example of global safety and hygiene management.

Important Awards in Environmental Protection:

Selected as a member of Dow Jones Sustainability Indexes for 3 years since 2008.

Awarded the Taiwan Environmental Heroes award, by Global Views Magazine in 2010.

Awarded Taiwan Corporate Sustainability Report Award by Taiwan Institute for Sustainable Energy. (2008-2010)

Awarded Enterprises Environmental Award of the Republic of China by the Environmental Protection Administration of Executive Yuan, R.O.C.. (totally 11 times since 2001)

Awarded Excellent Performance in Waste Management and Resource Reduction, Recycle and Reuse by EPA. (2010)

Climate Change

We hope to contribute to energy saving and carbon reduction through breakthroughs in green technology development and applications and establish our company as a leader in the green technology industry by injecting fresh enthusiasm for sustainable development.

We announced the climate change policy and carbon emission reduction plans on April 22, 2010. The new plans include a reduction of 33% for normalized perfluorinated compounds, or PFC, emissions and 3% for electricity usage by 2012 compared with the base year 2009. It is estimated that once the plan is completed, relative CO_2 emissions will be reduced by another 170,000 tons each year, which is expected to bring the total relative CO_2 emission reduction achieved through our carbon reduction measures to 43%, or approximately 1.1 million tons per year. Relative PFC emissions are expected to be reduced by as much as 75% with the new plan when combined with existing efforts. Our climate change policies during this post-Kyoto Protocol period includes: (i) achieving carbon neutral status via carbon management, (ii) becoming a comprehensive low-carbon solution provider, and (iii) leveraging corporate resources to cultivate a low-carbon economy.

We are the leader in the foundry industry to complete the replacement of C_2F_6 with C_3F_8 of lower global warming potential in 2007. We estimate this replacement program helped reduce CO_2 emissions by 340,000 metric tons in 2008, 377,000 metric tons in 2009 and 441,000 metric tons in 2010. Furthermore, our introduction of C_4F_8 in 2008 further decreased the emission of CO_2 in our production process reducing CO_2 emissions by an estimated 75,000 metric tons in 2008, 73,000 metric tons in 2009 and 100,000 metric tons in 2010.

We also support timely disclosure of carbon information and ensuring data quality. Since 2006, we have participated in the Carbon Disclosure Project formed by global institutional investors and disclosed our annual greenhouse gas emission volume, reduction goals and results. Moreover, we engage third-party verifiers to ensure the quality of the data. We completed verification on greenhouse gas emission and reduction records from 2000 to 2009 for all of our fabs in Taiwan. We plan to complete the 2010 GHG emissions data verification within this year.

In addition, our environmental efforts include the establishment of our New Business Development Center which will promote a low carbon economy by investing across the entire supply chain of the green technology industry, including renewable energy, solar energy, and new generation light-emitting diode (LED). The New Business Development Center will focus its primary investments on the LED and solar energy industries and such companies as LED lighting company Power Light Co. and photovoltaic engineering design company EverRich Energy Corporation.

Litigation

Hejian, a semiconductor manufacturer in Suzhou, China, was set up in December 2001. Soon after the establishment of Hejian, various rumors circulated that Hejian was set up by us. We immediately denied these rumors: we did not provide any capital nor did we transfer any technology to Hejian.

Nevertheless, in early 2006, the Hsinchu District Prosecutor s Office brought criminal charges in the Hsinchu District Court against our former Chairman, Robert H. C. Tsao and our former Vice Chairman, John Hsuan in connection with alleged breach of fiduciary duties and certain alleged violations of the R.O.C. Commercial Accounting Act regarding Hejian. Prior to such charges, both our former Chairman and former Vice Chairman resigned from their respective positions with our company. In October 2007, the Hsinchu District Court found our former Chairman and former Vice Chairman not guilty, but the Prosecutor s office filed an appeal with the Taiwan High Court in November 2007. On December 31, 2008, the Taiwan High Court rejected the prosecutor s appeal and sustained the Hsinchu District Court s decision. On January 20, 2009, Taiwan High Prosecutor s office filed an appeal with the Supreme Court. On December 3, 2009, the Supreme Court reversed the decision of, and remanded the case to, the Taiwan High Court for a new trial on the prosecutor s appeal. On September 14, 2010, the Taiwan High Court again ruled in our favor, finding our former Chairman and former Vice Chairman not guilty. The Prosecutor s Office did not file for an appeal within the time allowed, and this case is now closed in our favor.

The R.O.C. FSC, a regulatory authority that supervises securities, banking, futures, and insurance activities in Taiwan, also began their investigation into whether there had been any violation of R.O.C. securities laws by us regarding Hejian. In April 2005, our former Chairman was fined (1) NT$2.4 million by the R.O.C. FSC for delay in making timely public disclosure (within two days) regarding information relating to Hejian, which had been resolved in the March 4 Resolution, and (2) NT$0.6 million for our failure to disclose information regarding assistance we had provided to Hejian. Our former Chairman s appeal in relation to such fines was overruled in early 2006, and our former Chairman filed a lawsuit with the Taipei Administrative High Court to challenge the R.O.C. FSC fines. In December 2007, the Taipei Administrative High Court revoked the R.O.C. FSC s decision and ruled in favor of our former Chairman. In January 2008, the R.O.C. FSC filed an appeal with the Supreme Administrative Court. On November 5, 2009, the Supreme Administrative Court denied the R.O.C. FSC s appeal. This case is now closed in favor of our former Chairman.

In connection with the March 4 Resolution, our company was also fined in the amount of NT$30,000 by the Taiwan Stock Exchange for an alleged delay in making public disclosure regarding Hejian. After our former Chairman and former Vice Chairman were indicted by the prosecutor, our company was found by the R.O.C. MOEA to be in violation of the Act Governing Relations Between Peoples of the Taiwan Area and the Mainland Area and fined in the amount of NT$5 million for our alleged investment in Hejian. Our appeal to the R.O.C. MOEA in relation to such fines was denied in late 2006. We filed an administrative lawsuit in December 2006 with the Taipei Administrative High Court to challenge the R.O.C. MOEA fine. In July 2007, the Taipei Administrative High Court revoked the R.O.C. MOEA s decision and ruled in our favor. In August 2007, the R.O.C. MOEA filed an appeal with the Supreme Administrative Court. On December 10, 2009, the Supreme Administrative Court reversed the decision of, and remanded the case to, the Taipei High Administrative Court for a new trial on our administrative lawsuit. On July 21, 2010, the Taipei High Court ruled against us and we appealed to the Supreme Administrative Court on August 23, 2010. This matter remains open, with the case pending in the Supreme Administrative Court.

In June 2005, our Singapore Branch as plaintiff issued a Writ of Summons against Tokio Marine & Fire Insurance Company (Singapore) Pte. Ltd., or Tokio Marine, as defendant under a marine cargo insurance policy for the replacement cost of a 300mm Endura System damaged in transit. We incurred a cost of approximately US$1.24 million to replace the damaged chamber. Our Singapore Branch filed suit to recover under the Tokio Marine insurance policy on the grounds that the equipment was damaged in shipment as a result of rough handling or conditions. Tokio Marine denied that the incident was a covered event under the policy. In April 2008, the trial court entered a judgment in our favor in the amount of US$1.24 million with costs to be taxed in accordance with Singapore law. Before the time for Tokio Marine to appeal passed, Tokio Marine paid us US$1.24 million plus interest in accordance with the judgment. Tokio Marine filed a notice of appeal to appeal the trial court decision on January 5, 2009. After a hearing on March 26, 2009, the Court of Appeal entered its order in our favor, dismissed the appeal and ordered Tokio Marine to pay the costs we incurred on appeal. This case is now closed. Tokio Marine has made full payment for the amounts awarded by the court and is pursuing subrogation claims against China Airlines, the third-party carrier.

In February 2006, Taiwan Power Company, or TPC, filed a civil litigation case in Taiwan Hsinchu District Court against us and other Taiwan companies, claiming that (1) we and the other defendants collectively should pay electrical fees of NT$13.3 million with accrued interest to TPC, and (2) we pay electrical line fees of NT$21.2 million to TPC. On March 11, 2009, the Hsinchu District Court denied TPC s claim and ruled in our favor. TPC filed an appeal with the Taiwan High Court on April 9, 2009. On July 13, 2010, the Taiwan High Court ruled against us and we filed an appeal to the Supreme Court on August 13, 2010. On December 30, 2010, the Supreme Court found our appeal to be legitimate, dismissed the Taiwan High Court s judgment against us and remanded the case back to the Taiwan High Court for retrial. This case is now pending in the Taiwan High Court.

In March 2006, the spouse of Mr. C.F. Shih, a workman employed by Yih-Shin Construction Co., Ltd, or Yih-Shin, one of the subcontractors we engaged for construction of the Fab 12A dormitory, filed a request with the Taiwan Tainan Prosecutors Office for charges against us and other related parties in connection with Mr. Shih s severe injury in connection with the construction work. The Taiwan Tainan Prosecutor s Office denied this request, but Mr. Shih filed a civil claim in the Taiwan Tainan District Court against us, Yih-Shin and other related parties in April 2006. In the civil claim, Mr. Shih has asked for NT$21.0 million from us, Yih-Shin and other related parties collectively. In addition, Mr. Shih s mother and spouse each requested compensatory damages of NT$0.3 million, and each of Mr. Shih s three children requested for compensatory damages of NT$0.1 million. On January 15, 2010, the Taiwan Tainan District Court entered its order in our favor. The plaintiff did not file any appeal by the February 10, 2010 deadline, and this case is now closed in our favor in accordance with applicable rules.

On August 27, 2008, the Hsinchu District Prosecutors Office visited our offices in relation to an investigation related to our investment in ProMOS Technologies. We fully cooperated with the authorities in this investigation. We also conducted an internal inquiry regarding this investment, and we did not find any evidence of inappropriate activities that violate any of the applicable regulations. The Hsinchu District Prosecutors Office has decided not to prosecute this case.

Dispute with LSI

Due to the recent merger between LSI and Agere, we exercised our option to terminate Agere s payments under the Alternate Payment Provisions and Supplemental Licenses, or the APP, effective January 1, 2004 between us and Agere. As a result, the licenses granted to Agere and Lucent Technologies under our patents and the licenses granted to us under the semiconductor patents owned by Agere, Lucent Technologies and AT&T were terminated. In light of the merger, we believed we could secure more favorable terms than those afforded under the APP and entered negotiations with LSI/Agere toward that goal.

Based on past experience and our patent portfolio, on April 1, 2009, we entered a negotiated solution which resolves all disputes between us and LSI/Agere without any material adverse effect on our operations or financial performance as a whole. Pursuant to the terms of the settlement, the proceedings were terminated and/or dismissed with prejudice, including each of the following proceedings:

> In April 2008, LSI filed a petition with the U.S. International Trade Commission naming us and eighteen other companies as proposed respondents (including AMIC Technology, one of our customers). LSI s petition was based on alleged infringement of U.S. Patent Number 5,227,335, claiming certain methods for forming nitrided glue layers for tungsten processing in semiconductor fabrication. LSI s petition sought an order prohibiting import and/or sale of the accused devices in the U.S.. Under established ITC practice, the ITC initiated an investigation on the petition.
>
> On April 18 2008, LSI also filed a complaint in Federal District Court in the Eastern District of Texas, alleging an infringement of the same patent by the same parties. This complaint sought an injunction or order prohibiting the alleged infringement along with a reasonable royalty, and other damages in a trebled amount on the basis of alleged willfulness. Based on our motion, this court case was stayed pending the outcome of the ITC matter.
>
> On October 31, 2008, we filed a counter-suit against LSI in the Federal District Court in the Northern District of California alleging infringement of two our patents, U.S. Patent Numbers 5,459,354 and 5,652,689. Our complaint sought an injunction or order prohibiting the alleged infringement along with a reasonable royalty, and other damages, trebled on the basis of alleged willfulness.
>
> On December 24, 2008, LSI filed its response to our complaint, denying infringement and alleging invalidity and unenforceability. In addition, LSI included counterclaims against us, alleging invalidity and unenforceability of our patents and further alleging infringement of four LSI U.S. Patents, U.S. Patent Numbers 5,149,672; 6,153,543; 5,599,739; and 5,693,561. LSI s counterclaim sought an order invalidating and/or rendering the our patents unenforceable, together with an injunction or order prohibiting the alleged infringement along with a reasonable royalty, and other damages, trebled on the basis of alleged willfulness. On January 15, 2009, LSI dismissed that counterclaim without prejudice, and reasserted the same claims in the same court against us and our U.S. subsidiary.

On January 9, 2009, we filed a second complaint in the Federal District Court in the Northern District of California, alleging infringement by LSI and Agere of our U.S. Patent Number 5,393,701. Our complaint sought an injunction or order prohibiting the alleged infringement along with a reasonable royalty, and other damages, trebled on the basis of alleged willfulness.

We entered into a multi-year cross license agreement with LSI, effective from April 1, 2009 through December 31, 2012, which provides for the cross license of certain semiconductor patents including process and design. We and LSI further agreed not to assert patents against each other prior to December 31, 2012. We also agreed to pay LSI certain royalty fees under this agreement. See Item 10 Material Contracts .

Risk Management

Risk and safety matters are administered by our Group s Risk Management and Environmental Safety Health Division, or the GRM & ESH, established in 1998. We are pursuing the goal of a highly protected risk status in the semiconductor industry through the implementation of strict engineering safety procedures, regular enforcement of safety codes and standards, and compliance of detailed industry safety guidelines.

Our hazards risk management slogans are set forth below:

- Uniqueness in risk management
- Maturity in property loss control
- Continuous improvement in BCP

We have also adopted the Triple Star Ranking System of Chartis Insurance, a global leader in risk management and insurance, since 1999. All fabs have been ranked as top-class following Chartis s risk evaluation and risk improvement recommendations. The ranking system focuses on 20 items, including ten Physical Protection Elements and ten Human Elements. Our latest 12-inch lines, Fab 12A P1/2, 12A P3/4 and 12i, obtained triple-stars in all 20 elements in the very first Triple Star Audit.

We have also implemented proactive efforts in earthquake risk prevention. We believe our efforts contributed to our quick and exemplary recovery from two major earthquakes in Taiwan on September 21, 1999 and March 4, 2010, respectively. Our Hsinchu fabs and Fab 12A in Tainan sustained only minor impact to their operations from the earthquake without interruption to the power system or water service. Normal operations resumed shortly after the incidents.

Our continuous efforts in risk improvement and mitigation programs were recognized by the clean room risk identification and mitigation Gold Medal we received in the National Quality Control Circle competition held by the R.O.C. MOEA in 2005. In addition, we were awarded Outstanding Performance Award in Risk Management in 2006 by Chartis Insurance as a result of our outstanding risk management program.

Insurance

We maintain industrial all risk insurance for our buildings, facilities, equipment and inventories as well as third party properties, if any. The insurance for fabs and their equipment covers physical damage and business interruption losses up to their respective policy limits except for exclusions as defined in the policy. We purchase directors and officers liability insurance for our board directors and executive officers, covering the liabilities incurred in relation to his/her/its operation of business and legally responsible for. We also maintain public liability insurance for losses to third parties arising from our business operations. We believe that our insurance coverage is adequate to cover all major types of losses relevant to the semiconductor industry practice. However, significant damage to any of our production facilities, whether as a result of fire or other causes, could seriously harm our business.

C. Organizational Structure

The following list shows our corporate structure as of December 31, 2010:

Company	Jurisdiction of Incorporation	Percentage of Ownership as of December 31, 2010
UMC Group (USA)	California, U.S.A.	100.00%
United Microelectronics (Europe) B.V.	The Netherlands	100.00%
UMC Capital Corp.	Cayman Islands	100.00%
TLC Capital Co., Ltd.	Taiwan, R.O.C.	100.00%
UMC New Business Investment Corp.	Taiwan, R.O.C.	100.00%
Alpha Wisdom Limited	Cayman Islands	100.00%
Green Earth Limited	Samoa	100.00%
Fortune Venture Capital Corp.	Taiwan, R.O.C.	100.00%
UMC Japan	Japan	100.00%
Unitruth Investment Corp.	Taiwan, R.O.C.	100.00%
UMC Capital (U.S.A)	California, U.S.A.	100.00%
ECP VITA Ltd.	British Virgin Islands	100.00%
Soaring Capital Corp.	Samoa	100.00%
Unitruth Advisor (Shanghai) Co., Ltd.	China	100.00%
Mos Art Pack Corp.	Taiwan, R.O.C.	73.34%
Nexpower Technology Corp.	Taiwan, R.O.C.	57.67%
Wavetek Microelectronics Corporation	Taiwan, R.O.C.	99.79%
United Lighting Opto-Electronic Inc.	Taiwan, R.O.C.	94.65%
United Lighting Opto-Electronic Investment (HK) Limited	China	94.65%
Everrich Energy Corp.	Taiwan, R.O.C.	91.12%
Everrich Energy Investment (HK) Limited	China	91.12%
Everrich (Shandong) Energy Co. (formerly Yongsheng (Shandong) Energy Co.)	China	91.12%
Unistars Corp.	Taiwan, R.O.C.	65.63%
Topcell Solar International Co. Ltd.	Taiwan, R.O.C.	51.49%
Jenenergy System Corporation	Taiwan, R.O.C.	38.45%
Smart Energy Enterprises Limited	China	38.45%
Smart Energy ShanDong Corporation	China	38.45%

Note 1: On November 4, 2010, United Microelectronics Corp. (Samoa) filed for liquidation as a result of a decision of its stockholders meeting. We ceased accounting for our ownership of United Microelectronics Corp. (Samoa) under the equity method from November 4, 2010, and United Microelectronics Corp. (Samoa) was not our consolidated subsidiary as of December 31, 2010.

Note 2: On July 30, 2010, UMCi Ltd. filed for liquidation as a result of a decision of its stockholders meeting. We ceased accounting for our ownership of UMCi Ltd. under the equity method from July 30, 2010, and UMCi Ltd. was not our consolidated subsidiary as of December 31, 2010.

D. Property, Plants and Equipment

Please refer to B. Business Overview Manufacturing Facilities for a discussion of our property, plants and equipment

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Unless stated otherwise, the discussion and analysis of our financial condition and results of operations in this section apply to our financial information as prepared in accordance with R.O.C. GAAP. You should read the following discussion of our financial condition and results of operations together with the consolidated financial statements and the notes to such statements included in this annual report. R.O.C. GAAP varies in certain significant respects from U.S. GAAP. These differences and their effects on our financial statements are described in Note 34 to our audited consolidated financial statements included in this annual report.

For the convenience of readers, NT dollar amounts used in this section for, and as of, the year ended December 31, 2010 have been translated into U.S. dollar amounts using US$1.00 = NT$29.14, the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2010. The U.S. dollar translation appears in parentheses next to the relevant NT dollar amount.

Overview

We are one of the world s leading independent semiconductor foundries, providing comprehensive wafer fabrication services and technologies to our customers based on their designs. We manage our business as two operating segments but measure our results of operations based on a single reportable segment because the other operating segment does not exceed the materiality threshold.

Cyclicality of the Semiconductor Industry

As the semiconductor industry is highly cyclical, revenues varied significantly over this period. It can take several years to plan and construct a fab and bring it to operations. Therefore, during periods of favorable market conditions, semiconductor manufacturers often begin building new fabs or acquiring existing fabs in response to anticipated demand growth for semiconductors. In addition, after commencement of commercial operations, fabs can increase production volumes rapidly. As a result, large amounts of semiconductor manufacturing capacity typically become available during the same time period. Absent a proportional growth in demand, this increase in supply often results in semiconductor manufacturing overcapacity, which has led to a sharp decline in semiconductor prices and significant capacity under-utilization. Our average capacity utilization rate decreased to 70.7% in 2008, decreased to 69.4% in 2009 and increased to 93.7% in 2010. We believe that our results in 2008, 2009 and 2010 reflect the ongoing uncertainty in the global economy, conservative corporate information technology spending and low visibility with respect to end market demand.

Pricing

We price our products on either a per die or a per wafer basis, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer and our capacity utilization. Because semiconductor wafer prices tend to fluctuate frequently, we in general review our pricing on a quarterly basis. As a majority of our costs and expenses are fixed or semi-fixed, fluctuations in our products average selling prices historically have had a substantial impact on our margins. Our average selling price increased approximately 2.7% from 2009 to 2010, mainly due to a change in our product mix.

We believe that our current level of pricing is comparable to that of other leading foundries in each respective geometry. We believe that our ability to provide a wide range of advanced foundry services and process technologies as well as large manufacturing capacity will enable us to compete effectively with other leading foundries at a comparable price level.

Capacity Utilization Rates

Our operating results are characterized by relatively high fixed costs. In 2008, 2009 and 2010, approximately 68.1%, 67.2% and 61.5%, respectively, of our manufacturing costs consisted of depreciation, a portion of indirect material costs, amortization of license fees and indirect labor costs.

If our utilization rates increase, our costs would be allocated over a larger number of units, which generally leads to lower unit costs. As a result, our capacity utilization rates can significantly affect our margins. Our utilization rates have varied from period to period to reflect our production capacity and market demand. Our average capacity utilization rate decreased to 70.7% in 2008, 69.4% in 2009 but increased to 93.7% in 2010, respectively, primarily due to the global economic recovery from credit crisis. Utilization rates can also be affected by efficiency in production facility and product flow management. Other factors affecting utilization rates are the complexity and mix of the

wafers produced, overall industry conditions, the level of customer orders, mechanical failure, disruption of operations due to expansion of operations, relocation of equipment or disruption of power supply and fire or natural disaster.

Our production capacity is determined by us based on the capacity ratings given by manufacturers of the equipment used in the fab, adjusted for, among other factors, actual output during uninterrupted trial runs, expected down time due to set up for production runs and maintenance, expected product mix and research and development. Because these factors include subjective elements, our measurement of capacity utilization rates may not be comparable to those of our competitors.

Change in Product Mix and Technology Migration

Because the price of wafers processed with different technologies varies significantly, the mix of wafers that we produce is among the primary factors that affect our revenues and profitability. The value of a wafer is determined principally by the complexity and performance of the processing technology used to produce the wafer, as well as by the yield and defect density. Production of devices with higher levels of functionality and performance, with better yields and lower defect density as well as with greater system-level integration requires better manufacturing expertise and generally commands higher wafer prices. The increase in price generally has more than offset associated increases in production cost once an appropriate economy of scale is reached.

Prices for wafers of a given level of technology generally decline over the processing technology life cycle. As a result, we have continuously been migrating to increasingly sophisticated technologies to maintain the same level of profitability. We began our volume production with 90 nanometer and 65 nanometer technologies in 2004 and 2006, respectively. We started 40-nanometer production in the first half of 2009. These types of technology migration require continuous capital and research and development investment. Because developing and acquiring advanced technologies involve substantial capital investment, we expect to continue to spend a substantial amount of capital on upgrading our technologies and capabilities.

Manufacturing Yields

Manufacturing yield per wafer is measured by the number of functional dice on that wafer over the maximum number of dice that can be produced on that wafer. A small portion of our products is priced on a per die basis, and our high manufacturing yields have assisted us in achieving higher margins. In addition, with respect to products that are priced on a per wafer basis, we believe that our ability to deliver high manufacturing yields generally has allowed us to either charge higher prices per wafer or attract higher order volumes, resulting in higher margins.

We continually upgrade our process technologies. At the beginning of each technological upgrade, the manufacturing yield utilizing the new technology is generally lower, sometimes substantially lower, than the yield under the current technology. The yield is generally improved through the expertise and cooperation of our research and development personnel and process engineers, as well as equipment and at times raw material suppliers. Our policy is to offer customers new process technologies as soon as the new technologies have passed our internal reliability tests.

Investments

Most of our investments were made to improve our market position and for strategy considerations, a significant portion of which are in foundry-related companies including fabless design customers, raw material suppliers and intellectual property vendors. In addition, we also invest in non-foundry-related businesses, such as Cathay Financial Holding Co. Ltd. and ProMOS Technologies Inc. We have established the New Business Development Center to identify and make strategic investments in high growth industries such as solar, LED and semiconductor. In recent years, we have from time to time disposed of investments for financial, strategic or other purposes.

See Item 4. Information on the Company B. Business Overview Our Investments for a description of our investments.

Treasury Share Programs

We have from time to time announced plans, none of which was binding on us, to buy back up to a fixed amount of our shares on the Taiwan Stock Exchange at the price range set forth in the plans. In 2008, 2009 and 2010, we purchased an aggregate of 200 million, 300 million and 300 million, respectively, of our shares under these plans. From August 27, 2008 to October 2, 2008, we purchased 200 million of our shares for cancellation. From December 17, 2008 to February 16, 2009, we purchased 300 million of our shares at an average price of NT$7.98 per share to transfer to employees. From February 3, 2010 to April 2, 2010, we purchased 300 million of our shares at an average price of NT$16.15 per share to transfer to employees. Of the repurchased shares, 137 million, 97 million, 78 million and 64 million shares were purchased by our employees in November 2003, December 2007, December 2009, and December 2010 respectively; 556 million shares in aggregate were canceled in 2008.

Critical Accounting Policies

General

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements included in the annual report, which have been prepared in accordance with R.O.C. GAAP. R.O.C. GAAP varies in certain respects from U.S. GAAP. These differences and their effects on our financial statements are described in Note 34 to our audited consolidated financial statements included elsewhere in this annual report. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis and base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies involve significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, the product or service has been delivered, the seller s price to the buyer is fixed or determinable and collectability is reasonably assured. Most of our sales transactions have shipping terms of Free on Board, or FOB, or Free Carrier, or FCA, shipment in which title and the risk of loss or damage are transferred to the customer upon delivery of the product to a carrier approved by the customer.

Allowance for sales returns and discounts are estimated based on the information of customer complaints, historical experiences, management judgment and any other known factors that might significantly affect collectability. Such allowances are recorded in the same period in which sales are made. Shipping and handling costs are included in sales expenses.

Accounts Receivable and Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on the evaluation of collectability and aging analysis of accounts and on management s judgment. In circumstances where the ability of a specific customer to meet its financial obligations is in doubt, a specific allowance will be provided. Considerable judgment is required in assessing the ultimate realization of these receivables including the current credit worthiness and the past collection history of each customer. If the financial conditions of our customers were to worsen, additional allowances would be required. A deterioration of economic conditions either in the R.O.C. or in other major overseas markets may contribute to the deterioration of financial conditions of our customers, resulting in an impairment of their ability to make payments. The allowances for doubtful accounts accounted for 1.23%, 0.50% and 0.35% of our accounts receivables as of December 31, 2008, 2009 and 2010, respectively. The decrease in the allowance for doubtful accounts as a percentage of our accounts receivables is primarily due to the growth of customer demand in 2010.

Inventory

Inventories are accounted for on a perpetual basis. Raw materials are recorded at actual purchase costs, while the work in process and finished goods are recorded at standard costs and subsequently adjusted to costs using the weighted-average method at the end of each month. Allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Prior to January 1, 2009, inventories are stated individually by category at the lower of aggregate cost or market value as of the balance sheet date. The market values of raw materials and supplies are determined on the basis of replacement cost while the market values of work in process and finished goods are determined by net realizable values. Effective January 1, 2009, inventories are valued at the lower of cost and net realizable value item by item. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Income Taxes

Most of our existing tax benefits arise from investment tax credits, and others from net operating loss carry-forward and temporary differences. We recognize these tax benefits as deferred tax assets. Income tax expense or benefit is recognized when there is a net change in deferred tax assets and liabilities. A valuation allowance is recorded to reduce our deferred tax assets to the extent that we believe it is more likely than not that the tax benefits will not be realized. The assessment of the valuation allowance involves subjective assumptions and estimates as it principally depends on the estimation of future taxable income and prudent and feasible tax planning strategies. If future taxable income is lower than expected due to future market conditions or other reasons or in the event we determine that we will not be able to realize all or part of our net deferred tax assets in the future, an adjustment to our deferred tax assets valuation allowance may be required with the adjusting amount charged to income in this period. Likewise, should future taxable income be higher than expected due to future market conditions or other reasons or in the event we determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to our deferred tax assets valuation allowance would increase income in this period.

According to Accounting Standards Codification, or ASC, 740-10, *Income Tax*, our uncertain tax positions are accounted for based on a two-step process. The first step is to evaluate the tax position for recognition by determining if it is more likely than not that the position will be sustained based on the technical merits. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. Although ASC 740-10, *Income Tax* provides further clarification of the accounting for uncertainty in income taxes recognized in the financial statements, significant management judgment must be made and used in connection with the recognition threshold and measurement attribute. Determination of our uncertain tax positions involves the legal and factual interpretation with respect to the application of relevant tax laws and regulations, along with our assessment of other factors including changes in facts or circumstances, changes in tax law, and/or effectively settled issues under audit. As mentioned above, the application of tax laws and regulations is inherently subject to legal and factual interpretation, judgment and uncertainty. In addition, tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the final settlement of these uncertain tax positions might be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

Long-lived Assets Impairment

Pursuant to R.O.C. GAAP and U.S. GAAP, we are required to review the long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the long-lived assets might not be recoverable. Such review may include assessing whether there is a significant decrease in market values of long-lived assets or significant deterioration of market conditions to indicate the carrying value of such assets may not be recovered through future cash flows, any change in the use of long-lived assets to negatively affect their fair values, and any obsolescence issues that would lead to a lower fair value determination. If there is an indication that an asset might be impaired, we proceed with a further impairment test, which is performed for asset groups related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our semiconductor manufacturing capacity, we must make subjective judgments and estimates in determining the independent cash flows that can be related to specific asset groups, including the service potential of long-lived assets through its estimated useful life, cashflow-generating capacity, physical output capacity, potential fluctuation of economic cycle in the semiconductor industry and our operating situation. Under R.O.C. GAAP, we compare the carrying amount with the recoverable amount derived from discounted cash flow analysis to determine whether the asset is impaired and recognize impairment loss to the extent that its carrying amount exceeds its recoverable amount. If there is evidence that impairment losses recognized previously no longer exists, or has diminished, and the recoverable amount of the long-lived assets increases because of an increase in the asset s estimated service potential, the amount of loss may be reversed to the extent that the resulting carrying value should not exceed the carrying value had no impairment loss been recognized in prior years. Under U.S. GAAP, we compare the carrying amount with undiscounted cash flows to evaluate whether the asset is impaired and recognize an impairment loss equal to the excess of its carrying amount over its fair value derived from discounted cash flow analysis. Such impairment cannot

be reversed. However, changes in the estimates of expected cash flows may result in impairment charges in the future.

Pension

All of our regular employees were entitled to a defined benefit pension plan under the R.O.C. Labor Standards Law, or Labor Standards Law, prior to July 1, 2005. Such pension plan was managed by an independently administered pension fund committee, and fund assets were deposited under the committee s name at the Bank of Taiwan. On July 1, 2005, the R.O.C. Labor Pension Act, or the Labor Pension Act, became effective, under which qualified employees may elect to apply the pension calculation either under the R.O.C. Labor Standards Law or under the R.O.C. Labor Pension Act in accordance with a new defined contribution plan. The employees that selected to apply the Labor Pension Act may have their seniority previously accrued under the Labor Standards Law retained.

Under the defined benefit pension plan of the Labor Standards Law, we have significant pension benefit costs and liabilities that are developed from actuarial valuations. Inherent in these valuations are key assumptions including discount rates and expected return on plan assets. We consider current market conditions, including changes in interest rates, in selecting these assumptions. In addition to changes resulting from fluctuations in our related headcount, changes in the related pension costs or liabilities may also occur in the future due to changes in assumptions. Under the defined contribution pension plan of the R.O.C. Labor Pension Act, we are required to make monthly contributions to employees individual pension accounts and recognize expenses in the periods in which the contributions become due.

Investments in Debt and Equity Securities

Under U.S. GAAP and R.O.C. GAAP, equity securities over which we exercise no significant influence or control and with readily determinable fair values and debt securities are to be classified as either trading, which are known as financial assets at fair value through profit or loss, or FVTPL, under R.O.C. GAAP, available-for-sale or held-to-maturity securities. Debt securities that we have the intent and ability to hold to maturity are classified as held-to-maturity securities and reported at their amortized cost. Debt and equity securities that are bought and traded for short-term profit are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses reported in other comprehensive income under stockholders equity. Unrealized losses that are deemed to be other than temporary are charged to earnings. For individual securities classified as either available-for-sale or held-to-maturity, we would determine whether a decline in fair value below cost is other than temporary pursuant to guidance provided by ASC 320-10-35, *Investments-Debt and Equity Securities*. We consider, among other factors, information concerning significant adverse changes in market conditions in which the investee operates and operating issues specific to the investee in determining whether a decline in value is temporary. In general, a decline in market value below cost for a continuous period of six months is considered to be other than temporary unless there is persuasive evidence to the contrary. If the decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value with a charge against earnings.

Derivative Instruments

Under U.S. GAAP and R.O.C. GAAP, the embedded derivative features contained in exchangeable bonds are bifurcated and separately accounted for if the economic characteristics and risks of the embedded derivative instruments are not clearly and closely related to those of the host contracts. Those bifurcated embedded derivatives are fair valued at the end of each reporting period by using the option pricing model with the changes in fair value included in earnings. The valuation model uses the market-based observable inputs including share price, volatility, credit spread and swap rates.

We also hold certain freestanding derivative instruments such as interest rate swap and forward contracts, which are fair valued at each reporting period end. The fair values of these instruments are determined using market established valuation techniques, which involve certain key inputs such as the expected interest forward rate, expected volatility in interest rates, spot exchange rate and swap point. Any change in such key inputs could materially impact the determination of fair value of these derivative instruments.

Employee Stock Options

Under R.O.C. GAAP, for stock options granted before January 1, 2008, we apply the intrinsic value method to recognize the difference between the market price of the stock at grant date and the exercise price of the employee

stock option as compensation expense. For stock options granted on or after January 1, 2008, we recognize compensation cost using the fair value method in accordance with R.O.C. SFAS No. 39 Accounting for Share-Based Payment , or R.O.C. SFAS 39, consistent with U.S. GAAP. For equity-settled employee stock options, the corresponding increase in equity is measured at the fair value of the options. For cash-settled employee stock options, the corresponding liability incurred is measured at the fair value of the liability and such fair value is remeasured subsequently at each reporting date through the settlement date.

The Black-Scholes option-pricing model requires the use of input assumptions, including expected volatility, expected life, expected dividend rate and expected risk-free rate of return. We applied the historical realized volatility, which calculates volatility based on the historical stock price volatility over the time period equal to the expected term of the employee stock option, in estimating expected volatility because our shares have been publicly traded for a long time. For the options granted prior to 2008, we determined the expected term as the mid-point between the vesting period and the contractual term by using the simplified method. For the options granted after 2008, we determined the expected term based on historical stock option exercise data and we used the historical pattern of dividend yield for estimating the expected dividend of the underlying employee stock options. For entities based in jurisdictions outside the United States, the risk-free interest rate is the implied yield of zero-coupon government bonds currently available in the market in which the shares are primarily traded. Hence, we use the average yield of Taiwan Government Bond with the remaining term similar to the expected option term as the risk-free interest rate. The estimates of option fair value are not expected to foresee future events or the values realized by employees who receive stock option at the end of plans. In addition, later events are not indicative of the rationality of the initial estimates of the fair value of options used by us. We adjust employee stock option expenses on an annual basis for changes in expected forfeitures based on the examination of latest employee stock option forfeiture activity. The effect of adjusting the forfeiture rate used for expense amortization is recognized in the corresponding period in which the expected forfeiture rate is changed.

A. Operating Results

Net Operating Revenues

We generate our net operating revenues primarily from fabricating semiconductor devices. We also derive a small portion of our net operating revenues from wafer probe services that we perform internally as well as mask tooling services and assembly and test services that we subcontract out.

Cost of Goods Sold

Our costs of goods sold consist principally of:

- overhead, including depreciation and maintenance of production equipment, indirect labor costs, indirect material costs, supplies, utilities and royalties;
- wafer costs;
- direct labor costs; and
- service charges paid to subcontractors for mask tooling, assembly and test services.

Our total depreciation expenses decreased from NT$37,197 million in 2008 to NT$33,530 million in 2009 and again to NT$29,951 million (US$1,028 million) in 2010.

Operating Expenses

Our operating expenses consist of the following:

- Sales and marketing expenses. Sales and marketing expenses consist primarily of intellectual property development expenses, salaries and related personnel expenses, wafer sample expenses and related marketing expenses. Wafer samples are actual silicon samples of our customers early design ideas made with our most advanced processes and provided to those customers.

General and administrative expenses. General and administrative expenses consist primarily of salaries for our administrative, finance and human resource personnel, fees for professional services, and cost of computer and communication systems to support our operations.

Research and development expenses. Research and development expenses consist primarily of research testing related expenses, salaries and related personnel expenses and depreciation on the equipment used for our research and development.

Non-operating Income and Expenses

Our non-operating income principally consists of:

- interest income, which has been primarily derived from time deposits;
- investment income accounted for under the equity method, which has been primarily derived from the recognition of investee companies net income based on the percentage of their ownership we hold;
- gain on disposal of investments, which has been primarily derived from our disposal of long-term investments accounted for under the equity method, available-for-sale financial assets and financial assets measured at cost;
- dividend income, which has been primarily derived from the financial instruments of financial assets at fair value through profit or loss, available-for-sale financial assets and financial assets measured at cost;
- gain on valuation of financial assets and liabilities, which have been primarily derived from disposal of and changes in the values of financial assets and liabilities classified as FVTPL according to R.O.C. SFAS No. 34 Financial Instruments: Recognition and Measurement , or R.O.C. SFAS 34; and
- other income, which has been primarily derived from our branch s grant income received from the government in Singapore.

Our non-operating expenses principally consist of:

- loss on valuation of financial assets and liabilities, which have been primarily derived from disposal of and changes in the values of financial assets and liabilities classified as FVTPL according to R.O.C. SFAS 34;
- investment loss accounted for under the equity method, which has been primarily derived from the recognition of investee companies net loss based on the percentage of their ownership we hold; and
- impairment loss, which have been primarily derived from the loss recognized in long-term investments and long-live assets.

Taxation

Based on our status as a company engaged in the semiconductor business in Taiwan, we have been granted exemptions from income taxes in Taiwan with respect to income attributable to capital increases for the purpose of purchasing equipment related to the semiconductor business for a period of four or five years following each such capital increase. This tax exemption resulted in tax savings of approximately, NT$472 million, NT$766 million and NT$990 million (US$34 million) in 2008, 2009 and 2010, respectively. Our tax rate was 17% in 2010, the same rate applicable to companies outside the Hsinchu Science Park, and the statutory tax rate has been changed from 25% to 17% effective January 1, 2010.

We also benefit from other tax incentives generally available to technology companies in Taiwan, including tax credits applicable against corporate income tax that range from 30% to 50% of the amount of certain research and development and employee training expenses and 5% to 20% of the amount of investment in certain qualified equipment and technology. These tax incentives resulted in tax savings of approximately NT$609 million, nil and NT$947 million (US$32 million) in 2008, 2009 and 2010, respectively.

After taking into account the tax exemptions and tax incentives discussed above, we recorded NT$997 million, NT$651 million and NT$1,606 million (US$55 million) of tax expense in 2008, 2009 and 2010, respectively. Our effective income tax rate in 2010 was 6.33%

In 1997, the R.O.C. Income Tax Law was amended to integrate corporate income tax and stockholder dividend tax to eliminate the double taxation effect for resident stockholders of Taiwan companies. Under the amendment, all retained earnings generated from January 1, 1998 and not distributed to stockholders as dividends in the following year will be assessed a 10% retained earnings tax.

See Item 10. Additional Information E. R.O.C. Tax Considerations Dividends . As a result, if we do not distribute all of our annual retained earnings generated beginning January 1, 1998 as either cash and/or stock dividends in the following year, these earnings will be subject to the 10% retained earnings tax. In addition, the R.O.C. government enacted the R.O.C. Income Basic Tax Act, also known as the Minimum Income Tax Statute , or the Statute, which became effective on January 1, 2006 and imposes an alternative minimum tax, or AMT. The AMT imposed under the Statute is a supplemental tax which is payable if the income tax payable pursuant to the R.O.C. Income Tax Act is below the minimum amount prescribed under the Statute. In accordance with the Statute, a company will be subject to a 10% AMT if its annual taxable income under the Statute exceeds NT$2 million.

Comparisons of Results of Operations

The following table sets forth some of our results of operations data as a percentage of our net operating revenues for the periods indicated.

	Year Ended December 31,		
	2008	**2009**	**2010**
Net operating revenues	100.0%	100.0%	100.0%
Cost of goods sold	(86.9)	(83.1)	(70.8)
Gross profit	13.1	16.9	29.2
Operating expenses:			
Sales and marketing	(3.6)	(3.1)	(2.0)
General and administrative	(3.1)	(3.0)	(2.9)
Research and development	(8.6)	(8.8)	(6.9)
Operating income (loss)	(2.2)	2.0	17.4
Net non-operating income (loss)	(20.5)	(0.2)	2.7
Income (Loss) before income tax and minority interests	(22.7)	1.8	20.1
Income tax expense	(1.0)	(0.7)	(1.3)
Extraordinary gain		0.7	0.1
Net income (loss)	(23.7)	1.8	18.9
Attributable to:			

the Company	(23.0)	4.2	18.9
minority interests	(0.7)	(2.4)	(0.0)

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Net operating revenues. Net operating revenues increased by 38.4% from NT$91,390 million in 2009 to NT$126,442 million (US$4,339 million) in 2010, largely attributable to the global economic recovery steadily.

Cost of goods sold. Cost of goods sold increased by 17.8% from NT$75,975 million in 2009 to NT$89,518 million (US$3,072 million) in 2010. Our cost of goods sold increased at a slower pace compared to the increase in our revenues as a result of our continued efforts to reduce costs, which included measures such as negotiating with suppliers for more favorable prices and streamlining the workforce. In addition, the increase in our utilization rate also lowered our cost per unit manufactured.

Gross profit and gross margin. Gross margin increased from 16.9% in 2009 to 29.2% in 2010, primarily due to the recovery of global economic and our improved operating efficiencies as a result of cost reduction.

Operating income (loss) and operating margin. Operating income increased substantially from NT$1,847 million in 2009 to NT$22,020 million (US$756 million) in 2010. Our operating margin increased from 2.0% in 2009 to 17.4% in 2010. The increase in operating margin is largely due to an increase in gross margin. Operating expenses increased by 9.9% from NT$13,568 million in 2009 to NT$14,904 million (US$511 million) in 2010.

Sales and marketing expenses. Our sales and marketing expenses decreased by 8.4% from NT$2,800 million in 2009 to NT$2,566 million (US$88 million) in 2010. The decrease in sales and marketing expenses was mainly due to a decrease in IP royalty expenses. Our sales and marketing expenses as a percentage of our net operating revenues decreased slightly from 3.1% in 2009 to 2.0% in 2010.

General and administrative expenses. Our general and administrative expenses increased by 32.1% from NT$2,724 million in 2009 to NT3,598 million (US$123 million) in 2010 primarily as a result of an increase in personnel expenses. Our general and administrative expenses as a percentage of our net operating revenues decreased slightly from 3.0% in 2009 to 2.9% in 2010.

Research and development expenses. Our research and development expenses increased by 8.7% from NT$8,044 million in 2009 to NT$8,740 million (US$300 million) in 2010. The increase in research and development expenses resulted primarily from an increase in personnel expenses. Our research and development expenses as a percentage of our net operating revenues decreased from 8.8% in 2009 to 6.9% in 2010.

Net non-operating income (loss). Net non-operating income (loss) increased by 2,027.9% from loss of NT$(174) million in 2009 to income of NT$3,364 million (US$115 million) in 2010, mainly due to a decrease in impairment loss from NT$4,007 million to NT$114 million (US$4 million), a decrease in gain on valuation of financial assets from NT$513 million to nil and an 42.8% increase in dividend income from NT$941 million to NT$1,344 million (US$46 million).

Net income attributable to the Company. Due to the factors described above, we incurred a net income of NT$23,899 million (US$820 million) in 2010, compared with a net income of NT$3,874 million in 2009.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Net operating revenues. Net operating revenues decreased by 5.6% from NT$96,814 million in 2008 to NT$91,390 million (US$2,860 million) in 2009, largely attributable to a decrease in our average selling price as a result of the global recession since the second half of 2008 which resulted in lower demand in the semiconductor industry.

Cost of goods sold. Cost of goods sold decreased by 9.7% from NT$84,102 million in 2008 to NT$75,975 million (US$2,378 million) in 2009, primarily due to a decrease in depreciation and our continuous effort on cost reduction, including negotiation with suppliers for more favorable prices, streamlining the workforce and implementation of unpaid leave plans.

Gross profit and gross margin. Gross margin increased from 13.1% in 2008 to 16.9% in 2009, primarily due to our improved operating efficiencies as a result of cost reduction.

Operating income (loss) and operating margin. Operating income (loss) increased substantially from loss of NT$(2,100) million in 2008 to income of NT$1,847 million in 2009. Our operating margin increased from (2.2)% in 2008 to 2.0% in 2009. The increase in operating margin is largely due to an increase in gross margin. Operating expenses decreased by 8.4% from NT$14,812 million in 2008 to NT$13,568 million in 2009.

Sales and marketing expenses. Our sales and marketing expenses decreased by 19.6% from NT$3,483 million in 2008 to NT$2,800 million in 2009. The decrease in sales and marketing expenses was mainly due to a decrease in IP royalty expenses and the recovery of bad debts. Our sales and marketing expenses as a percentage of our net operating revenues decreased slightly from 3.6% in 2008 to 3.1% in 2009.

General and administrative expenses. Our general and administrative expenses decreased by 10.8% from NT$3,055 million in 2008 to NT$2,724 million in 2009 primarily as a result of our expense control activities. Our general and administrative expenses as a percentage of our net operating revenues decreased slightly from 3.1% in 2008 to 3.0% in 2009.

Research and development expenses. Our research and development expenses decreased by 2.8% from NT$8,274 million in 2008 to NT$8,044 million in 2009. The decrease in research and development expenses resulted primarily from our expense control activities. Our research and development expenses as a percentage of our net operating revenues increased from 8.6% in 2008 to 8.8% in 2009.

Net non-operating loss. Net non-operating loss decreased by 99.1% from NT$19,886 million in 2008 to NT$174 million in 2009, mainly due to a decrease in loss on valuation of financial assets from NT$2,398 million to nil, a decrease in impairment loss from NT$13,180 million to NT$4,007 million and a decrease in net investment loss accounted for under the equity method from NT$10,465 million to net investment gain accounted for under the equity method of NT$180 million, partially offset by a 42.0% decrease in gain on disposal of investments from NT$3,386 million to NT$1,965 million and a 55.1% decrease in dividend income from NT$2,094 million to NT$941 million.

Net income (loss) attributable to the Company. Due to the factors described above, we incurred a net income of NT$3,874 million in 2009, compared with a net loss of NT$(22,320) million in 2008.

B. Liquidity and Capital Resources

The foundry business is highly capital intensive. Our development over the past three years has required significant investments. Additional expansion for the future generally will continue to require significant cash for acquisition of plant and equipment to support increased capacities, particularly for the production of 12-inch wafers, although our expansion program will be adjusted from time to time to reflect market conditions. In addition, the semiconductor industry has historically experienced rapid changes in technology. To maintain competitiveness at the same capacity, we are required to make adequate investments in plant and equipment. In addition to our need for liquidity to support the large fixed costs of capacity expansion and the upgrading of our existing plants and equipment for new technologies, as we ramp up production of new plant capacity, we require significant working capital to support purchases of raw materials for our production and to cover variable operating costs such as salaries until production yields provide sufficiently positive margins for a fabrication facility to produce operating cash flows.

We have financed our capital expenditure requirements in recent years with cash flows from operations as well as from bank borrowings, the issuance of bonds and equity-linked securities denominated in NT dollars and U.S. dollars. We incurred capital expenditures of NT$11,515 million, NT$17,618 million and NT$61,290 million (US$2,103 million) in 2008, 2009 and 2010, respectively, requiring a significant amount of funding from financing activities. Once a fab is in operation at acceptable capacity and yield rates, it can provide significant cash flows. Cash flows significantly exceed operating income, reflecting the significant non-cash depreciation expense. We generated cash flows from operations of NT$45,251 million, NT$32,427 million and NT$53,560 million (US$1,838 million) in 2008, 2009 and 2010, respectively.

As of December 31, 2010, we had NT$51,271 million (US$1,759 million) of cash and cash equivalents and NT$1,140 million (US$39 million) of FVTPL, current. Cash equivalents included reverse repurchase agreements with banks in Taiwan for commercial paper, government bonds, or other highly secure assets for short-term liquidity management. These agreements bore interest rates ranging from 0.40% to 0.55%, 0.14% to 0.17% and 0.25% to 0.41% in 2008, 2009 and 2010, respectively. The terms of these agreements were typically less than two weeks. As of December 31, 2008, 2009, and 2010, we held reverse purchase agreements in the amount of NT$6,155 million, NT$8,777 million and NT$3,757 million (US$129 million), respectively.

We believe that our working capital, cash flow from operations and unused lines of credit are sufficient for our present requirements.

At our 2010 annual general meeting, our stockholders authorized the Board to raise capital from private placement, through issuing instruments such as common shares, depositary receipts (including but not limited to ADS), or Euro/Domestic convertible bonds (including secured or unsecured corporate bonds), based on market conditions and our needs. The amount of shares issued or convertible is proposed to be no more than 10% of our total shares issued (i.e., no more than 1,298,791,231 shares). According to Item 6, Article 43-6 of the R.O.C. Security and Exchange Act, any private placement of our shares must be conducted separately within one year after approval at the annual general meeting of stockholders. The approval to conduct a private placement of our shares will expire on June 14, 2011. Considering changes in regulations and market conditions, the Board has resolved to terminate any plans for a private placement of our shares.

Operating Activities

Our operating activities generated cash of NT$53,560 million (US$1,838 million) in 2010. Cash generated from our operating activities for 2010 significantly exceeded net income due to the add-back of non-cash items, such as depreciation and amortization in the amount of NT$30,496 million (US$1,047 million). Cash generated by operating activities increased from NT$32,427 million in 2009 to NT$53,560 million (US$1,838 million) in 2010, primarily due to an increase in cash collected from our customers.

Investment Activities

Net cash used in our investment activities was NT$57,843 million (US$1,985 million) in 2010. In 2010, we used cash of NT$61,290 million (US$2,103 million) to purchase equipment primarily used at our fabs. This was offset by the net cash provided by acquisition and disposal of available-for-sale financial assets and subsidiaries in the amount of NT$3,253 (US$112 million) and NT$1,589 (US$55 million).

Financing Activities

Net cash used in our financing activities was NT$10,174 million (US$349 million) in 2010. We repaid bonds of NT$7,500 million (US$257 million), paid cash dividends of NT$6,225 million (US$214 million), acquired treasury stock of NT$4,844 million (US$166 million), raised bank loans of NT$5,548 (US$190 million) and increased noncontrolling interests of NT$2,331 (US$80 million).

We had NT$4,124 million (US$142 million) outstanding short-term loans as of December 31, 2010. We had total availability under existing short-term lines of credit of NT$17,271 million (US$593 million) as of December 31, 2010. We had bonds payable of NT$4,996 million (US$171 million) in the aggregate as of December 31, 2010.

As of December 31, 2010, our outstanding long-term debts primarily consisted of NT$67 million unsecured long-term bank loans due by 2012, NT$300 million unsecured and NT$700 million secured long-term bank loans due by 2013, NT$200 million unsecured and NT$6,255 million secured long-term bank loans due by 2015. The interest rates of our long-term bank loans range from 1.14% to 2.49%.

As of December 31, 2010, the current portion of bonds due within one year was NT$4,996 million (US$171 million), and the current portion of long-term bank loans due within one year was NT$711 million (US$25 million).

Capital Expenditures

We have entered into several construction contracts for the expansion of our factory space. As of December 31, 2010, these construction contracts amounted to NT$7,163 million (US$246 million) with an unaccrued portion of the contracts of NT$1,157 million (US$40&n="overflow:hidden;font-size:10pt;">

Unrealized gain (loss) on derivatives

$

—

$

19,369

$
—

$
19,369

Loan fair value change related to interest rates
(19,369
)

—

(19,369
)
—

Loan fair value change related to credit quality
4,276

—

4,276

—

$
(15,093
)

$
19,369

$
(15,093
)
$
19,369

2. New Accounting Pronouncements
There have been no new applicable accounting pronouncements issued during the six months ended March 31, 2015.

3. Restrictions on Cash and Due from Banks

The Company is required to maintain reserve balances in cash and on deposit with the Federal Reserve based on a percentage of deposits. The total requirement was approximately $40.2 million and $50.4 million at March 31, 2015 and September 30, 2014, respectively.

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Notes to Consolidated Financial Statements (Unaudited)

4. Securities Available for Sale
The amortized cost and approximate fair value of investments in securities, all of which are classified as available for sale according to management's intent, are summarized as follows (in thousands):

	Amortized	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of March 31, 2015				
U.S. Treasury securities	$271,753	$3,724	$—	$275,477
U.S. Agency securities	74,345	456	—	74,801
Mortgage-backed securities:				
Government National Mortgage Association	945,299	4,266	(4,469)	945,096
Federal National Mortgage Association	48,495	—	(129)	48,366
Small Business Assistance Program	51,086	—	(527)	50,559
States and political subdivision securities	2,107	1	—	2,108
Corporate debt securities	4,996	66	—	5,062
Other	1,006	33	—	1,039
	$1,399,087	$8,546	$(5,125)	$1,402,508

	Amortized	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of September 30, 2014				
U.S. Treasury securities	$222,868	$31	$(174)	$222,725
U.S. Agency securities	—	—	—	—
Mortgage-backed securities:				
Government National Mortgage Association	1,113,363	4,639	(14,587)	1,103,415
Federal National Mortgage Association	—	—	—	—
Small Business Assistance Program	—	—	—	—
States and political subdivision securities	2,188	1	—	2,189
Corporate debt securities	11,732	141	—	11,873
Other	1,006	34	—	1,040
	$1,351,157	$4,846	$(14,761)	$1,341,242

The amortized cost and approximate fair value of debt securities available for sale as of March 31, 2015 and September 30, 2014, by contractual maturity, are shown below. Maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without any penalties.

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	March 31, 2015		September 30, 2014	
(In Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$76,162	$76,620	$7,207	$7,218
Due after one year through five years	272,043	275,766	223,282	223,140
Due after five years through ten years	4,996	5,062	6,299	6,429
	353,201	357,448	236,788	236,787
Mortgage-backed securities	1,044,880	1,044,021	1,113,363	1,103,415
Securities without contractual maturities	1,006	1,039	1,006	1,040
	$1,399,087	$1,402,508	$1,351,157	$1,341,242

Proceeds from sales of securities available for sale were $0 and $4.5 million for the three months ended March 31, 2015 and 2014, respectively, and $55.1 million and $4.5 million for the six months ended March 31, 2015 and 2014, respectively. There were no gross gains or gross losses realized on sales for the three months ended March 31, 2015 and 2014, using the specific identification method. Gross gains of $0.6 million and $0 and gross losses of $0.5 million and $0 were realized on the sales for the six months ended March 31, 2015 and 2014, respectively, also using the specific identification method.
Securities with a carrying value of approximately $1,174.9 million and $1,132.3 million at March 31, 2015 and September 30, 2014, respectively, were pledged as collateral on public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law. The counterparties do not have the right to sell or pledge the securities the Company has pledged as collateral.
As detailed in the following tables, certain investments in debt securities, which are approximately 40% and 64% of the Company's investment portfolio at March 31, 2015 and September 30, 2014, respectively, are reported in the consolidated financial statements at an amount less than their amortized cost. Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information, implicit or explicit government guarantees, and information obtained from regulatory filings, management believes the declines in fair value of these securities are temporary. As the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the recovery of their amortized cost basis, which may be maturity, the Company does not consider the securities to be other than temporarily impaired at March 31, 2015 or September 30, 2014. The Company did not recognize any other-than-temporary impairment for the three and six months ended March 31, 2015 and 2014.
The following table presents the Company's gross unrealized losses and approximate fair value in investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	March 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized
U.S. Treasury securities	$—	$—	$—	$—	$—	$—
U. S. Agency securities	—	—	—	—	$—	$—
Mortgage-backed securities	83,704	(656)	479,290	(4,469)	562,994	(5,125)
Corporate debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
	$83,704	$(656)	$479,290	$(4,469)	$562,994	$(5,125)

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GREAT WESTERN BANCORP, INC.
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	September 30, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized
U.S. Treasury securities	$98,344	$(174)	$—	$—	$98,344	$(174)
U.S. Agency securities	—	—	—	—	$—	$—
Mortgage-backed securities	24,625	(125)	730,171	(14,462)	754,796	(14,587)
Corporate debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
	$122,969	$(299)	$730,171	$(14,462)	$853,140	$(14,761)

The Company’s investments in nonmarketable equity securities are all stock of the Federal Home Loan Bank ("FHLB"). The carrying value of Federal Home Loan Bank stock was $31.8 million and $35.9 million as of March 31, 2015 and September 30, 2014, respectively, and is reported in other assets on the consolidated balance sheets. No indicators of impairment related to FHLB stock were identified during the three and six months ended March 31, 2015 and 2014.

The components of other comprehensive income from net unrealized gains (losses) on securities available for sale for the three and six months ended March 31, 2015 and 2014, respectively are as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Beginning balance accumulated other comprehensive income (loss)	$(3,042)	$(13,535)	$(6,157)	$(7,081)
Net unrealized holding gain (loss) arising during the period	8,312	10,020	13,285	(389)
Reclassification adjustment for net gain realized in net income	—	(6)	(51)	(6)
Net change in unrealized gain (loss) before income taxes	8,312	10,014	13,234	(395)
Income tax (expense) benefit	(3,159)	(3,693)	(4,966)	262
Net change in unrealized gain (loss) on securities after taxes	5,153	6,321	8,268	(133)
Ending balance accumulated other comprehensive income (loss)	$2,111	$(7,214)	$2,111	$(7,214)

5. Loans

The composition of net loans as of March 31, 2015 and September 30, 2014, is as follows (in thousands):

	March 31, 2015	September 30, 2014
Residential real estate	$905,114	$901,605
Commercial real estate	2,673,255	2,541,194
Commercial non real estate	1,657,856	1,571,640
Agriculture	1,748,366	1,681,209
Consumer	80,036	90,086
Other	35,433	34,243
	7,100,060	6,819,977
Less:		
Allowance for loan losses	(52,426)	(47,518)
Unamortized discount on acquired loans	(21,774)	(25,638)

Unearned net deferred fees and costs and loans in process	(5,821)	(6,872)
	$7,020,039	$6,739,949

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GREAT WESTERN BANCORP, INC.
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The loan breakouts above include loans covered by FDIC loss sharing agreements totaling $187.6 million and $234.0 million as of March 31, 2015 and September 30, 2014, respectively, residential real estate loans held for sale totaling $9.0 million and $10.4 million at March 31, 2015 and September 30, 2014, respectively, and $1,060.6 million and $985.4 million of loans and written loan commitments accounted for at fair value as of March 31, 2015 and September 30, 2014, respectively.
Unamortized net deferred fees and costs totaled $6.5 million and $6.3 million as of March 31, 2015 and September 30, 2014, respectively.
Loans in process represent loans that have been funded as of the balance sheet dates but not classified into a loan category and loan payments received as of the balance sheet dates that have not been applied to individual loan accounts. Loans in process totaled $(0.7) million and $0.6 million as of March 31, 2015 and September 30, 2014, respectively.
Loans guaranteed by agencies of the U.S. government totaled $112.3 million and $106.5 million at March 31, 2015 and September 30, 2014, respectively.
Principal balances of residential real estate loans sold totaled $69.6 million and $33.7 million for the three months ended March 31, 2015 and 2014, respectively and $133.9 million and $87.8 million for the six months ended March 31, 2015 and 2014, respectively.
The following table presents the Company's nonaccrual loans at March 31, 2015 and September 30, 2014 (in thousands), excluding loans covered under the FDIC loss-sharing agreements. Loans greater than 90 days past due and still accruing interest as of March 31, 2015 and September 30, 2014, were not significant.

Nonaccrual loans	March 31, 2015	September 30, 2014
Residential real estate	$7,690	$6,671
Commercial real estate	10,836	20,767
Commercial non real estate	9,015	4,908
Agriculture	18,860	11,453
Consumer	111	146
Total	$46,512	$43,945

The following table (in thousands) presents the Company's past due loans at March 31, 2015 and September 30, 2014. This table is presented net of unamortized discount on acquired loans and excludes loans measured at fair value with changes in fair value reported in earnings of $1,060.6 million for March 31, 2015 and $985.4 million for September 30, 2014.

As of March 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables
Residential real estate	$1,909	$562	$2,854	$5,325	$777,219	$782,544
Commercial real estate	165	2,316	4,816	7,297	2,284,882	2,292,179
Commercial non real estate	3,344	622	4,262	8,228	1,221,359	1,229,587
Agriculture	3,491	—	834	4,325	1,406,083	1,410,408
Consumer	218	28	35	281	79,603	79,884
Other	—	—	—	—	35,433	35,433
	9,127	3,528	12,801	25,456	5,804,579	5,830,035
Loans covered by FDIC loss sharing agreements	4,744	214	2,768	7,726	179,923	187,649
Total	$13,871	$3,742	$15,569	$33,182	$5,984,502	$6,017,684

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GREAT WESTERN BANCORP, INC.
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As of September 30, 2014	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Financing Receivables
Residential real estate	$675	$611	$2,581	$3,867	$760,887	$764,754
Commercial real estate	11,050	819	3,384	15,253	1,988,585	2,003,838
Commercial non real estate	1,761	6,228	744	8,733	1,303,925	1,312,658
Agriculture	16	368	4,205	4,589	1,364,960	1,369,549
Consumer	244	18	49	311	89,528	89,839
Other	—	—	—	—	34,243	34,243
	13,746	8,044	10,963	32,753	5,542,128	5,574,881
Loans covered by FDIC loss sharing agreements	1,960	1,252	3,728	6,940	227,096	234,036
Total	$15,706	$9,296	$14,691	$39,693	$5,769,224	$5,808,917

The composition of the loan portfolio by internally assigned grade is as follows as of March 31, 2015 and September 30, 2014. This table (in thousands) is presented net of unamortized discount on acquired loans and excludes loans measured at fair value with changes in fair value reported in earnings of $1,060.6 million for March 31, 2015 and $985.4 million for September 30, 2014:

As of March 31, 2015	Residential Real Estate	Commercial Real Estate	Commercial Non Real Estate	Agriculture	Consumer	Other	Total
Credit Risk Profile by Internally Assigned Grade							
Grade:							
Pass	$765,058	$2,122,618	$1,093,867	$1,188,111	$79,244	$35,433	$5,284,331
Watchlist	5,248	105,838	96,724	176,266	372	—	384,448
Substandard	11,759	63,540	36,627	44,290	259	—	156,475
Doubtful	428	183	2,369	1,741	1	—	4,722
Loss	51	—	—	—	8	—	59
Ending balance	782,544	2,292,179	1,229,587	1,410,408	79,884	35,433	5,830,035
Loans covered by FDIC loss sharing agreements	113,578	63,268	8,925	1,832	46	—	187,649
Total	$896,122	$2,355,447	$1,238,512	$1,412,240	$79,930	$35,433	$6,017,684

GREAT WESTERN BANCORP, INC.
Notes to Consolidated Financial Statements (Unaudited)

As of September 30, 2014	Residential Real Estate	Commercial Real Estate	Commercial Non Real Estate	Agriculture	Consumer	Other	Total
Credit Risk Profile by Internally Assigned Grade							
Grade:							
Pass	$747,485	$1,867,866	$1,218,558	$1,202,145	$89,197	$34,243	$5,159,494
Watchlist	5,320	84,132	65,628	132,262	381	—	287,723
Substandard	11,290	51,692	27,499	35,107	242	—	125,830
Doubtful	659	148	798	35	19	—	1,659
Loss	—	—	175	—	—	—	175
Ending balance	764,754	2,003,838	1,312,658	1,369,549	89,839	34,243	5,574,881
Loans covered by FDIC loss sharing agreements	127,115	95,467	9,390	2,004	60	—	234,036
Total	$891,869	$2,099,305	$1,322,048	$1,371,553	$89,899	$34,243	$5,808,917

Impaired Loans
The following table presents the Company's impaired loans (in thousands). This table excludes loans covered by FDIC loss sharing agreements:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
As of March 31, 2015				
Impaired loans:				
With an allowance recorded:				
Residential real estate	$12,332	$12,452	$2,721	$12,220
Commercial real estate	73,729	75,381	1,753	67,942
Commercial non real estate	41,310	49,834	6,905	36,916
Agriculture	46,031	46,059	3,007	40,780
Consumer	268	325	52	274
	$173,670	$184,051	$14,438	$158,132

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
As of September 30, 2014				
Impaired loans:				
With an allowance recorded:				
Residential real estate	$12,107	$12,737	$2,529	$13,572
Commercial real estate	62,155	64,597	2,017	84,490
Commercial non real estate	32,522	37,882	3,927	31,827
Agriculture	35,528	37,958	1,155	30,546
Consumer	280	491	51	346
	$142,592	$153,665	$9,679	$160,781

There are no impaired loans without a valuation allowance, other than those loans for which the Company has claim to collateral with value(s) in excess of the outstanding loan amount, after allowing for the cost of liquidating the collateral as of March 31, 2015 and

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Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014. Interest income recognized on impaired loans for the three months ended March 31, 2015 and 2014 totaled $1.8 million and $2.1 million, respectively and $4.8 million and $3.3 million for the six months ended March 31, 2015 and 2014, respectively.

Valuation adjustments made to repossessed properties for the three months ended March 31, 2015 and 2014, totaled $2.2 million and $0.5 million, respectively, and $4.3 million and $1.0 million for the six months ended March 31, 2015 and 2014, respectively. The adjustments are included in other noninterest expense.

Troubled Debt Restructured Loans

Included in certain loan categories in the impaired loans are troubled debt restructurings ("TDRs") that were classified as impaired. These TDRs do not include purchased impaired loans. When the Company grants concessions to borrowers such as reduced interest rates or extensions of loan periods that would not be considered other than because of borrowers' financial difficulties, the modification is considered a TDR. Specific reserves included in the allowance for loan losses for TDRs were $2.7 million and $3.2 million at March 31, 2015 and September 30, 2014, respectively. Commitments to lend additional funds to borrowers whose loans were modified in a TDR were not significant as of March 31, 2015 or September 30, 2014.

The following table presents the recorded value of the Company's TDR balances as of March 31, 2015 and September 30, 2014 (in thousands):

	March 31, 2015		September 30, 2014	
	Accruing	Nonaccrual	Accruing	Nonaccrual
Residential real estate	$618	$1,929	$1,112	$1,730
Commercial real estate	45,160	5,424	25,177	6,884
Commercial non real estate	10,165	1,445	6,753	1,785
Agriculture	2,159	6,377	3,780	9,994
Consumer	20	13	35	22
Total	$58,122	$15,188	$36,857	$20,415

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The following table presents a summary of all accruing loans restructured in TDRs during the three months ended March 31, 2015 and 2014, respectively:

	Three Months Ended March 31,					
	2015			2014		
		Recorded Investment			Recorded Investment	
($ in thousands)	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification
Residential real estate						
Rate modification	1	$15	$ 15	—	$—	$ —
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	1	21	21	—	—	—
Total residential real estate	2	36	36	—	—	—
Commercial real estate						
Rate modification	—	—	—	—	—	—
Term extension	1	90	—	—	—	—
Payment modification	4	3,660	3,660	—	—	—
Bankruptcy	1	498	498	—	—	—
Other	—	—	—	—	—	—
Total commercial real estate	6	4,248	4,158	—	—	—
Commercial non real estate						
Rate modification	—	—	—	—	—	—
Term extension	3	2,879	2,879	1	35	35
Payment modification	1	50	50	2	67	67
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	1	327	327
Total commercial non real estate	4	2,929	2,929	4	429	429
Agriculture						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total agriculture	—	—	—	—	—	—
Consumer						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	2	4	4
Bankruptcy	1	6	6	—	—	—
Other	—	—	—	1	18	18
Total consumer	1	6	6	3	22	22
Total accruing	13	$7,219	$ 7,129	7	$451	$ 451
Change in recorded investment due to principal paydown at time of modification	—	—		—	—	—
	1	90	—	—	—	—

Change in recorded investment due to
chargeoffs at time of modification

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The following table presents a summary of all accruing loans restructured in TDRs during the six months ended March 31, 2015 and 2014:

	Six Months Ended March 31,					
	2015			2014		
		Recorded Investment			Recorded Investment	
($ in thousands)	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification
Residential real estate						
Rate modification	1	$15	$ 15	—	$—	$ —
Term extension	—	—	—	2	74	74
Payment modification	—	—	—	1	15	15
Bankruptcy	—	—	—	1	130	130
Other	1	21	21	—	—	—
Total residential real estate	2	36	36	4	219	219
Commercial real estate						
Rate modification	—	—	—	—	—	—
Term extension	1	90	—	—	—	—
Payment modification	6	22,542	22,542	1	1,070	1,070
Bankruptcy	1	498	498	—	—	—
Other	—	—	—	—	—	—
Total commercial real estate	8	23,130	23,040	1	1,070	1,070
Commercial non real estate						
Rate modification	1	32	32	—	—	—
Term extension	3	2,879	2,879	4	1,734	1,734
Payment modification	2	1,874	1,874	4	735	735
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	1	327	327
Total commercial non real estate	6	4,785	4,785	9	2,796	2,796
Agriculture						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total agriculture	—	—	—	—	—	—
Consumer						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	—	—	—
Payment modification	—	—	—	2	4	4
Bankruptcy	1	6	6	—	—	—
Other	—	—	—	2	28	28
Total consumer	1	6	6	4	32	32
Total accruing	17	27,957	27,867	18	$4,117	$ 4,117
Change in recorded investment due to principal paydown at time of modification	—	—		—	—	—

Change in recorded investment due to chargeoffs at time of modification	1	90	—	—	—	—

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The following table presents a summary of all non-accruing loans restructured in TDRs during the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,					
	2015			2014		
		Recorded Investment			Recorded Investment	
($ in thousands)	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification
Residential real estate						
Rate modification	2	$104	$ 104	4	$98	$ 98
Term extension	1	77	77	1	15	15
Payment modification	—	—	—	—	—	—
Bankruptcy	1	43	43	—	—	—
Other	—	—	—	—	—	—
Total residential real estate	4	224	224	5	113	113
Commercial real estate						
Rate modification	—	—	—	2	500	500
Term extension	—	—	—	2	4,031	4,031
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	1	87	87
Total commercial real estate	—	—	—	5	4,618	4,618
Commercial Non Real Estate						
Rate modification	—	—	—	—	—	—
Term extension	4	217	217	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	1	10	10
Other	—	—	—	—	—	—
Total commercial non real estate	4	217	217	1	10	10
Agriculture						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	2	260	260
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total agriculture	—	—	—	2	260	260
Consumer						
Rate modification	—	—	—	—	—	—
Term extension	1	1	1	—	—	—
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total consumer	1	1	1	—	—	—
Total non-accruing	9	$442	$ 442	13	$5,001	$ 5,001
Change in recorded investment due to principal paydown at time of modification	—	—	—	—	—	—
	—	—	—	—	—	—

Change in recorded investment due to
chargeoffs at time of modification

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The following table presents a summary of all non-accruing loans restructured in TDRs during the six months ended March 31, 2015 and 2014:

	Six Months Ended March 31,					
	2015			2014		
		Recorded Investment			Recorded Investment	
($ in thousands)	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification
Residential real estate						
Rate modification	2	$104	$ 104	4	$98	$ 98
Term extension	1	77	77	2	18	18
Payment modification	—	—	—	—	—	—
Bankruptcy	1	43	43	1	4	4
Other	—	—	—	1	38	38
Total residential real estate	4	224	224	8	158	158
Commercial real estate						
Rate modification	—	—	—	2	500	500
Term extension	—	—	—	2	4,031	4,031
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	1	87	87
Total commercial real estate	—	—	—	5	4,618	4,618
Commercial Non Real Estate						
Rate modification	—	—	—	—	—	—
Term extension	4	217	217	8	125	125
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	1	10	10
Other	—	—	—	—	—	—
Total commercial non real estate	4	217	217	9	135	135
Agriculture						
Rate modification	—	—	—	—	—	—
Term extension	—	—	—	2	260	260
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total agriculture	—	—	—	2	260	260
Consumer						
Rate modification	—	—	—	—	—	—
Term extension	1	1	1	1	11	11
Payment modification	—	—	—	—	—	—
Bankruptcy	—	—	—	—	—	—
Other	—	—	—	1	1	1
Total consumer	1	1	1	2	12	12
Total non-accruing	9	442	442	26	$5,183	$ 5,183
Change in recorded investment due to principal paydown at time of modification	—	—	—	—	—	—
	—	—	—	—	—	—

Change in recorded investment due to
chargeoffs at time of modification

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The tables below represent defaults on loans that were first modified during the respective past 12 months, that became 90 days or more delinquent or were charged-off during the three and six months ended March 31, 2015 and 2014, respectively.

	Three Months Ended March 31,			
	2015		2014	
($ in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate	4	$ 107	3	$ 375
Commercial real estate	—	—	3	1,814
Commercial non real estate	—	—	5	1,604
Agriculture	—	—	6	3,685
Consumer	—	—	—	—
	4	$ 107	17	$ 7,478

	Six Months Ended March 31,			
	2015		2014	
($ in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate	10	$ 629	3	$ 375
Commercial real estate	—	—	5	8,110
Commercial non real estate	1	95	5	1,604
Agriculture	1	15	7	7,361
Consumer	—	—	—	—
	12	$ 739	20	$ 17,450

The majority of loans that were modified and subsequently became 90 days or more delinquent have remained on nonaccrual status since the time of modification.

6. Allowance for Loan Losses

The following tables presents the Company’s allowance for loan losses roll forward for the three and six month periods ended March 31, 2015 and 2014.

Three Months Ended March 31, 2015	Residential Real Estate	Commercial Real Estate	Commercial Non Real Estate	Agriculture	Consumer	Other	Total
Beginning balance January 1, 2015	$ 7,567	$ 17,722	$ 14,625	$ 10,920	$ 201	$ 785	$ 51,820
Charge-offs	(63)	(1,570)	(8,440)	(27)	(19)	(403)	(10,522)
Recoveries	70	26	983	22	23	325	1,449
Provision	160	(389)	8,789	1,307	(17)	120	9,970
(Impairment) improvement of loans acquired with deteriorated credit quality	(239)	(53)	—	—	1	—	(291)
	$ 7,495	$ 15,736	$ 15,957	$ 12,222	$ 189	$ 827	$ 52,426

Ending balance March 31, 2015

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Notes to Consolidated Financial Statements (Unaudited)

Three Months Ended March 31, 2014	Residential Real Estate	Commercial Real Estate	Commercial Non Real Estate	Agriculture	Consumer	Other	Total
Beginning balance January 1, 2014	$11,854	$22,292	$11,552	$9,256	$390	$725	$56,069
Charge-offs	(207)	(3,194)	(838)	(2,086)	(96)	(486)	(6,907)
Recoveries	21	433	(128)	(2)	31	326	681
Provision	(216)	(2,536)	1,380	735	37	100	(500)
(Impairment) improvement of loans acquired with deteriorated credit quality	(1,175)	608	(1,691)	—	68	—	(2,190)
Ending balance March 31, 2014	$10,277	$17,603	$10,275	$7,903	$430	$665	$47,153

Six Months Ended March 31, 2015	Residential Real Estate	Commercial Real Estate	Commercial Non Real Estate	Agriculture	Consumer	Other	Total
Beginning balance October 1, 2014	$8,342	$16,884	$10,550	$10,655	$264	$823	$47,518
Charge-offs	(120)	(1,652)	(8,524)	(27)	(57)	(831)	(11,211)
Recoveries	113	95	2,143	79	47	644	3,121
Provision	(190)	346	11,788	1,515	(41)	191	13,609
(Impairment) improvement of loans acquired with deteriorated credit quality	(650)	63	—	—	(24)	—	(611)
Ending balance March 31, 2015	$7,495	$15,736	$15,957	$12,222	$189	$827	$52,426

Six Months Ended March 31, 2014	Residential Real Estate	Commercial Real Estate	Commercial Non Real Estate	Agriculture	Consumer	Other	Total
Beginning balance October 1, 2013	$11,779	$22,562	$11,222	$9,296	$312	$693	$55,864
Charge-offs	(437)	(3,194)	(999)	(2,086)	(152)	(956)	(7,824)
Recoveries	96	1,024	759	15	67	717	2,678
Provision	14	(3,397)	734	678	135	211	(1,625)
(Impairment) improvement of loans acquired with deteriorated credit quality	(1,175)	608	(1,441)	—	68	—	(1,940)
Ending balance March 31, 2014	$10,277	$17,603	$10,275	$7,903	$430	$665	$47,153

The following tables provide details regarding the allowance for loan and lease losses and balance by type of allowance. These tables (in thousands) are presented net of unamortized discount on acquired loans and excludes

loans measured at fair value with changes in fair value reported in earnings of $1,060.6 million, loans held for sale of $9.0 million, and guaranteed loans of $112.3 million for March 31, 2015 and loans measured at fair value with changes in fair value reported in earnings of $985.4 million, loans held for sale of $10.4 million, and guaranteed loans of $106.5 million for September 30, 2014.

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As of March 31, 2015	Residential Real Estate	Commercial Real Estate	Commercial Non Real Estate	Agriculture	Consumer	Other	Total
Allowance for loan losses							
Individually evaluated for impairment	$2,721	$1,691	$6,894	$3,007	$52	$—	$14,365
Collectively evaluated for impairment	2,640	11,274	9,063	9,215	137	827	33,156
Loans acquired with deteriorated credit quality	2,134	709	—	—	—	—	2,843
Loans acquired without deteriorated credit quality	—	2,062	—	—	—	—	2,062
Total allowance	$7,495	$15,736	$15,957	$12,222	$189	$827	$52,426
Financing Receivables							
Individually evaluated for impairment	$9,669	$62,020	$39,900	$36,407	$177	$—	$148,173
Collectively evaluated for impairment	677,091	2,138,649	1,134,073	1,350,998	76,625	35,433	5,412,869
Loans acquired with deteriorated credit quality	93,277	27,834	5,348	1,595	1,466	—	129,520
Loans acquired without deteriorated credit quality	105,259	74,794	8,026	16,102	1,662	—	205,843
Loans Outstanding	$885,296	$2,303,297	$1,187,347	$1,405,102	$79,930	$35,433	$5,896,405

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As of September 30, 2014	Residential Real Estate	Commercial Real Estate	Commercial Non Real Estate	Agriculture	Consumer	Other	Total
Allowance for loan losses							
Individually evaluated for impairment	$2,528	$1,953	$3,909	$1,152	$51	$—	$9,593
Collectively evaluated for impairment	3,030	12,034	6,641	9,503	188	823	32,219
Loans acquired with deteriorated credit quality	2,784	645	—	—	25	—	3,454
Loans acquired without deteriorated credit quality	—	2,252	—	—	—	—	2,252
Total allowance	$8,342	$16,884	$10,550	$10,655	$264	$823	$47,518
Financing Receivables							
Individually evaluated for impairment	$9,384	$38,457	$28,298	$25,655	$166	$—	$101,960
Collectively evaluated for impairment	649,970	1,874,474	1,224,035	1,319,343	85,065	34,243	5,187,130
Loans acquired with deteriorated credit quality	102,987	49,202	6,361	1,746	1,843	—	162,139
Loans acquired without deteriorated credit quality	117,630	95,323	7,409	17,655	2,825	—	240,842
Loans Outstanding	$879,971	$2,057,456	$1,266,103	$1,364,399	$89,899	$34,243	$5,692,071

The reserve for unfunded loan commitments was $0.4 million at both March 31, 2015 and September 30, 2014.

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7. Accounting for Certain Loans Acquired with Deteriorated Credit Quality

In June 2010, the Company acquired certain loans that had deteriorated credit quality. Loan accounting specific to these purchased impaired loans addresses differences between contractual cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. Several factors were considered when evaluating whether a loan was considered a purchased impaired loan, including the delinquency status of the loan, updated borrower credit status, geographic information, and updated loan-to-values (“LTV”). U.S. GAAP allows purchasers to aggregate purchased impaired loans acquired in the same fiscal quarter in one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

Loan pools are periodically reassessed to determine expected cash flows. In determining the expected cash flows, the timing of cash flows and prepayment assumptions for smaller, homogenous loans are based on statistical models that take into account factors such as the loan interest rate, credit profile of the borrowers, the years in which the loans were originated, and whether the loans are fixed or variable rate loans. Prepayments may be assumed on large individual loans that consider similar prepayment factors listed above for smaller homogenous loans. The re-assessment of purchased impaired loans resulted in the following changes in the accretable yield during the three and six months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Balance at beginning of period	$46,342	$58,411	$50,889	$67,660
Accretion	(3,222)	(4,944)	(8,009)	(9,374)
Reclassification from nonaccretable difference	311	2,948	631	2,948
Disposals	—	—	(80)	(4,819)
Balance at end of period	43,431	56,415	43,431	56,415

The reclassifications from nonaccretable difference noted in the table above represent instances where specific pools of loans are expected to perform better over the remaining lives of the loans than expected at the prior re-assessment date.

The following table provides purchased impaired loans at March 31, 2015 and September 30, 2014 (in thousands):

	March 31, 2015			September 30, 2014		
	Outstanding Balance [1]	Recorded Investment [2]	Carrying Value [3]	Outstanding Balance [1]	Recorded Investment [2]	Carrying Value [3]
Residential real estate	$110,499	$93,277	$91,143	$115,863	$102,987	$100,203
Commercial real estate	107,514	27,835	27,126	130,825	49,202	48,557
Commercial non real estate	14,710	5,348	5,348	16,697	6,361	6,361
Agriculture	1,623	1,595	1,595	1,747	1,746	1,746
Consumer	1,838	1,466	1,466	2,019	1,843	1,818
Total lending	$236,184	$129,521	$126,678	$267,151	$162,139	$158,685

1 Represents the legal balance of loans acquired with deteriorated credit quality.

2 Represents the book balance of loans acquired with deteriorated credit quality.

3 Represents the book balance of loans acquired with deteriorated credit quality net of the related allowance for loan losses.

Due to improved cash flows of the purchased impaired loans, the reductions to allowance recognized on previous impairments were $0.4 million and $3.6 million for the three months ended March 31, 2015 and 2014, respectively and $0.9 million and $3.6 million for the six months ended March 31, 2015 and 2014, respectively.

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8. FDIC Indemnification Asset
Under the terms of the purchase and assumption agreement with the FDIC with regard to the TierOne Bank acquisition, the Company is reimbursed for a portion of the losses incurred on covered assets. As covered assets are resolved, whether it be through repayment, short sale of the underlying collateral, the foreclosure on or sale of collateral, or the sale or charge-off of loans or OREO, any differences between the carrying value of the covered assets versus the payments received during the resolution process, that are reimbursable by the FDIC, are recognized as reductions in the FDIC indemnification asset. Any gains or losses realized from the resolution of covered assets reduce or increase, respectively, the amount recoverable from the FDIC. The following table represents a summary of the activity related to the FDIC indemnification asset for the three and six months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Balance at beginning of period	$22,162	$41,756	$26,678	$45,690
Amortization	(2,060)	(4,662)	(4,593)	(7,947)
Changes in expected reimbursements from FDIC for changes in expected credit losses	2	(382)	(190)	(408)
Changes in reimbursable expenses	(207)	1,437	(363)	2,805
Payments to/(from) the FDIC	(2)	(374)	(1,637)	(2,365)
Balance at end of period	$19,895	$37,775	$19,895	$37,775

The loss claims filed are subject to review, approval, and annual audits by the FDIC or its assigned agents for compliance with the terms in the loss sharing agreements.

9. Derivative Financial Instruments
In the normal course of business, the Company uses interest rate swaps to manage its interest rate risk and market risk in accommodating the needs of its customers. Also, the Company enters into interest rate lock commitments on mortgage loans to be held for sale, with corresponding forward sales contracts related to these interest rate lock commitments.
Derivative instruments are recognized as either assets or liabilities in the accompanying consolidated financial statements and are measured at fair value.

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The following table summarizes the notional amounts and estimated fair values of the Company's derivative instruments at March 31, 2015 and September 30, 2014 (in thousands).

	March 31, 2015			
	Notional Amount	Balance Sheet Location	Positive Fair Value	Negative Fair Value
Derivatives not designated as hedging instruments:				
Interest rate swaps	$1,045,934	Liabilities	$71	$(48,858)
Mortgage loan commitments	37,394	Assets	27	—
Mortgage loan forward sale contracts	44,485	Liabilities	—	(27)
	September 30, 2014			
	Notional Amount	Balance Sheet Location	Positive Fair Value	Negative Fair Value
Derivatives not designated as hedging instruments:				
Interest rate swaps	$986,440	Liabilities	$6,213	$(19,286)
Mortgage loan commitments	22,563	Assets	19	—
Mortgage loan forward sale contracts	28,459	Liabilities	—	(19)

As with any financial instrument, derivative financial instruments have inherent risk including adverse changes in interest rates. The Company's exposure to derivative credit risk is defined as the possibility of sustaining a loss due to the failure of the counterparty to perform in accordance with the terms of the contract. Credit risks associated with interest rate swaps is similar to those relating to traditional on-balance sheet financial instruments. The Company manages interest rate swap credit risk with the same standards and procedures applied to its commercial lending activities. Amounts due from NAB to reclaim cash collateral under the interest rate swap master netting arrangements have not been offset against the derivative balances. These receivables are classified on the consolidated balance sheets as cash and were $0 as of March 31, 2015 and September 30, 2014, respectively.

The effect of derivatives on the consolidated statements of comprehensive income for the three and six months ended March 31, 2015 and 2014 (in thousands) was as follows:

		Amount of Gain (Loss) Recognized in Income			
		Three Months Ended		Six Months Ended	
	Location of Gain (Loss) Recognized in Income	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Derivatives not designated as hedging instruments:					
Interest rate swaps	Noninterest income	$(21,698)	$(12,436)	$(46,303)	$(7,599)
Mortgage loan commitments	Noninterest income	13	31	27	34
Mortgage loan forward sale contracts	Noninterest income	(13)	(31)	(27)	(34)

Netting of Derivatives

The Company has various financial assets and financial liabilities that are subject to enforceable master netting agreements or similar agreements. The Company has entered into an ISDA master netting arrangement with NAB. Under the terms of the master netting arrangements, all transactions between the Company and the counterparty constitute a single business relationship such that in the event of default, the non-defaulting party is entitled to set off claims and apply property held by that party in respect of any transaction against obligations owed. Any payments, deliveries, or other transfers may be applied against each other and netted.

The table below shows total gross derivative assets and liabilities which are adjusted on an aggregate basis, where applicable to take into consideration the effects of legally enforceable master netting agreements for the net reported amount in the consolidated balance sheets. These amounts are offset on the consolidated balance sheets.

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The following tables (in thousands) present the Company's gross derivative financial assets and liabilities at March 31, 2015 and September 30, 2014, and the related impact of enforceable master netting arrangements and cash collateral, where applicable:

	Gross Amount	Amount Offset	Net Amount Presented in Consolidated Balance Sheets	Held/Pledged Financial Instruments[1]	Net Amount
March 31, 2015					
Derivative financial assets:					
Derivatives subject to master netting arrangement or similar arrangement	$71	$(71)	$—	$—	$—
Derivative financial liabilities:					
Derivatives subject to master netting arrangement or similar arrangement	(48,858)	71	(48,787)	48,787	—
Total derivative financial liabilities	$(48,787)	$—	$(48,787)	$48,787	$—

[1] The actual amount of collateral exceeds the fair value exposure, at the individual counterparty level, as of the date presented.

	Gross Amount	Amount Offset	Net Amount Presented in Consolidated Balance Sheets	Held/Pledged Financial Instruments	Net Amount
September 30, 2014					
Derivative financial assets:					
Derivatives subject to master netting arrangement or similar arrangement	$6,213	$(6,213)	$—	$—	$—
Derivative financial liabilities:					
Derivatives subject to master netting arrangement or similar arrangement	(19,286)	6,213	(13,073)	13,073	—
Total derivative financial liabilities	$(13,073)	$—	$(13,073)	$13,073	$—

10. The Fair Value Option

The Company has elected to measure certain long-term loans and written loan commitments at fair value to assist in managing the interest rate risk for longer-term loans. This fair value option was elected upon the origination of these loans. Interest income is recognized in the same manner as interest on non-fair value loans.

See Note 17 for additional disclosures regarding the fair value of the fair value option loans and written loan commitments.

Long-term loans and written loan commitments for which the fair value option has been elected had a net favorable difference between the aggregate fair value and the aggregate unpaid loan principal balance and written loan commitment amount of approximately $43.3 million and $7.1 million at March 31, 2015 and September 30, 2014, respectively. The total unpaid principal balance of these long-term loans was approximately $1,017.3 million and $978.3 million at March 31, 2015 and September 30, 2014, respectively. The fair value of these loans and written loan commitments is included in total loans in the consolidated balance sheets and are grouped with commercial non real estate, commercial real estate, and agricultural loans in Note 5. The fair value of these written loan commitments was not material at March 31, 2015 and September 30, 2014, respectively. None of the noted loans were greater than 90 days past due or in nonaccrual status as of March 31, 2015 or September 30, 2014.

Changes in fair value for items for which the fair value option has been elected and the line items in which these changes are reported are as follows for the three and six months ended March 31, 2015 and 2014 (in thousands):

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	For the Three Months Ended				For the Six Months Ended			
	March 31, 2015		March 31, 2014		March 31, 2015		March 31, 2014	
	Noninterest Income	Total Changes in Fair Value	Noninterest Income	Total Changes in Fair Value	Noninterest Income	Total Changes in Fair Value	Noninterest Income	Total Changes in Fair Value
Long-term loans and written loan commitments	$15,208	$ 15,208	$8,730	$8,730	$32,308	$ 32,308	$(380)	$(380)

For long-term loans and written loan commitments, $(1.2) million and $0.7 million for the three months ended March 31, 2015 and 2014, respectively, and $0.5 million and $0.7 million for the six months ended March 31, 2015 and 2014, respectively of the total change in fair value is attributable to changes in specific credit risk. The gains or losses attributable to changes in instrument-specific credit risk were determined based on an assessment of existing market conditions and credit quality of the underlying loan for the specific portfolio of loans.

11. Core Deposits and Other Intangibles

A summary of intangible assets subject to amortization is as follows (in thousands):

	Core Deposit Intangible	Brand Intangible	Customer Relationships Intangible	Total
As of March 31, 2015				
Gross carrying amount	$92,679	$8,464	$16,089	$117,232
Accumulated amortization	(90,819)	(3,854)	(12,956)	(107,629)
Net intangible assets	$1,860	$4,610	$3,133	$9,603
As of September 30, 2014				
Gross carrying amount	$92,679	$8,464	$16,089	$117,232
Accumulated amortization	(87,423)	(3,572)	(12,008)	(103,003)
Net intangible assets	$5,256	$4,892	$4,081	$14,229

Amortization expense of intangible assets was $2.3 million and $4.7 million for the three months ended March 31, 2015 and 2014, respectively and $4.6 million and $9.4 million for the six months ended March 31, 2015 and 2014, respectively.

The estimated amortization expense of intangible assets assumes no activities, such as acquisitions, which would result in additional amortizable intangible assets. Estimated amortization expense of intangible assets in subsequent fiscal years is as follows (in thousands):

Remaining in 2015	$2,484
2016	2,822
2017	1,097
2018	564
2019	564
2020 and thereafter	2,072
	$9,603

12. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature within one to four days from the transaction date. Securities underlying the agreements had an amortized cost of approximately $176.7 million and $190.6 million and fair value of approximately $177.2 million and $188.6 million at March 31, 2015 and September 30, 2014,

respectively. The Company holds the securities under third-party safekeeping agreements.

13. FHLB Advances, Related Party Notes Payable and Other Borrowings

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FHLB advances, related party notes payable, and other borrowings consist of the following at March 31, 2015 and September 30, 2014 (in thousands):

	March 31, 2015	September 30, 2014
Subordinated capital note to NAB New York (a branch of NAB), due June 2018 (callable June 2015), interest paid quarterly based on LIBOR plus 205 basis points, unsecured	$35,795	$35,795
$10,000 revolving line of credit to NAB due on demand, interest paid monthly based on LIBOR plus 125 basis points, unsecured	5,500	5,500
Total related party notes payable	41,295	41,295
Notes payable to Federal Home Loan Bank (FHLB), interest rates from 0.21% to 3.66% and maturity dates from April 2015 to July 2023, collateralized by real estate loans and FHLB stock, with various call dates at the option of the FHLB	475,000	575,000
Other	19	94
Total FHLB advances and other borrowings	475,019	575,094
	$516,314	$616,389

As of March 31, 2015, based on its Federal Home Loan Bank stock holdings, the combined aggregate additional borrowing capacity of the Company with the Federal Home Loan Bank was $796.3 million.

Principal balances of loans pledged to the Federal Home Loan Bank to collateralize notes payable totaled $2,157.1 million and $2,145.5 million at March 31, 2015 and September 30, 2014, respectively.

As of March 31, 2015, FHLB advances, related party notes payable and other borrowings are due or callable (whichever is earlier) in subsequent fiscal years as follows (in thousands):

Remaining in 2015	$70,519
2016	90,000
2017	25,000
2018	60,795
2019	75,000
2020 and thereafter	195,000
	$516,314

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14. Income Taxes

The provision for income taxes charged to operations consists of the following for the three and six months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Currently paid or payable				
Federal	$10,337	$10,994	$24,011	$26,960
State	1,484	1,288	3,477	3,957
	11,821	12,282	27,488	30,917
Deferred tax (benefit) expense	(2,101)	2,207	(4,066)	(1,489)
Income tax expense	$9,720	$14,489	$23,422	$29,428

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income due to the following for the three and six months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Computed “expected” tax expense (35%)	$10,305	$14,161	$24,445	$29,401
Increase (decrease) in income taxes resulting from:				
Tax exempt interest income	(1,651)	(1,174)	(3,216)	(2,276)
State income taxes, net of federal benefit	965	837	2,260	2,572
Other	101	665	(67)	(269)
Actual tax expense	$9,720	$14,489	$23,422	$29,428

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Net deferred tax assets (liabilities) consist of the following components at March 31, 2015 and September 30, 2014 (in thousands):

	March 31, 2015	September 30, 2014
Deferred tax assets:		
Allowance for loan losses	$21,421	$19,683
Compensation	606	329
Net operating loss carryforward	94	119
Securities available for sale	(1,310)	3,758
Other real estate owned	15,462	13,721
Core deposit intangible and other fair value adjustments	11,227	10,573
Excess tax basis of loans acquired over carrying value	8,438	9,595
Other	4,976	6,272
Total deferred tax assets	60,914	64,050
Deferred tax liabilities:		
Goodwill and other intangibles	(3,707)	(9,099)
Premises and equipment	(11,037)	(4,390)
Excess carrying value of FDIC indemnification asset and clawback liability	(1,557)	(4,280)
Other	(912)	(1,578)
Total deferred tax liabilities	(17,213)	(19,347)
Net deferred tax assets	$43,701	$44,703

At March 31, 2015, the Company had income tax receivable of $0.2 million from the Internal Revenue Service and at September 30, 2014, had income tax payable of $4.9 million to National Americas Investment, Inc. (included in income tax payable).
Management has determined a valuation reserve is not required for the deferred tax assets because it is more likely than not these assets could be realized through carry back to taxable income in prior years, future reversals of existing taxable temporary differences, and future taxable income.
Uncertain tax positions were not significant at March 31, 2015 or September 30, 2014.
The Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2009. In July 2014, the IRS issued the final report on their examination of federal income tax returns for the periods ended September 30, 2010 and 2011. The results of the examination did not have a material effect on our financial condition or results of operations.

15. Profit-Sharing Plan
The Company participates in a multiple employer 401(k) profit sharing plan (the Plan). All employees are eligible to participate, beginning with the first day of the month coincident with or immediately following the completion of one year of service and having reached the age of 21. In addition to employee contributions, the Company may contribute discretionary amounts for eligible participants. Contribution rates for participating employees must be equal. The Company contributed $0.5 million and $0 to the Plan for the three months ended March 31, 2015 and 2014, respectively and $1.8 million and $1.2 million for the six months ended March 31, 2015 and 2014, respectively.

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16. Stock-Based Compensation
On September 26, 2014, the Board of Directors adopted, and on October 10, 2014 NAB, our controlling shareholder, approved the Great Western Bancorp, Inc. 2014 Omnibus Incentive Compensation Plan (the “2014 Plan”), the Great Western Bancorp, Inc. 2014 Non-Employee Director Plan (the “2014 Director Plan”), and the Great Western Bancorp, Inc. Executive Incentive Compensation Plan (the “Bonus Plan”), collectively ("the Plans"), which provide for the issuance of restricted share units and performance based share units to certain officers, employees and directors of the Company. The Plans were primarily established to enhance the Company’s ability to attract, retain and motivate employees. The Company’s Board of Directors, the Compensation Committee of the Board of Directors ("Compensation Committee"), or executive management upon delegation of the Compensation Committee has exclusive authority to select the employees and others, including directors, to receive the awards and to establish the terms and conditions of each award made pursuant to the Company’s stock-based compensation plans.
Stock units issued under the Company’s restricted and performance based stock plans may not be sold or otherwise transferred until the vesting period (typically 3 years) has been met and/or performance objectives have been obtained. During the vesting periods, participants do not have voting rights and dividends are accumulated until the time upon which the award vests. Upon specified events, as defined in the Plans, stock unit awards that have not vested and/or performance hurdles that have not been met will be forfeited.
Based on the substantive terms of each award, restricted and performance-based awards are classified as equity awards and accounted for under the Treasury method. The fair value of equity-classified awards is based on the market price of the stock on the measurement date and is amortized as compensation expense on a straight-line basis over the vesting or performance period.
Stock based compensation is recognized based on the number of awards that are ultimately expected to vest. Forfeitures are estimated based on historical turnover experience of qualified employees. For performance-based stock awards, an estimate is made of the number of shares expected to vest as a result of actual performance against the performance targets to determine the amount of compensation expense to be recognized. The estimate is reevaluated quarterly and total compensation expense is adjusted for any change in the current period. Stock-based compensation expense is included in salaries and employee benefits expense in the consolidated statements of comprehensive income. For the three months ended March 31, 2015 and 2014, stock compensation expense was $0.2 million and $0, respectively. For the six months ended March 31, 2015 and 2014, stock compensation expense was $0.7 million and $0.0 million, respectively. Related income tax benefits recognized for the three months ended March 31, 2015 and 2014 were $0.1 million and $0, respectively and $0.3 million and $0.0 million for the six months ended March 31, 2015 and 2014, respectively.
The following is a summary of the Plans’ restricted share and performance-based stock award activity as of March 31, 2015:

Restricted Shares	Common Shares		Weighted-Average Grant Date Fair Value
Restricted shares, October 1, 2014	—		$—
Granted	79,728		18.05
Vested and issued	—		—
Forfeited	(556	)	18.00
Canceled	—		—
Restricted shares, March 31, 2015	79,172		$18.05
Vested, but not issuable at March 31, 2015	12,221		$18.00
Performance Shares			
Performance shares, October 1, 2014	—		$—
Granted	221,184		18.00

Vested and issued	—	—
Forfeited	(4,736)	18.00
Canceled	—	—
Performance shares, March 31, 2015	216,448	$ 18.00

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The number of performance shares granted is reflected in the above table at the 100% target performance level. The actual performance-based award payouts will vary based on the achievement of the pre-established targets and can range from 0% to 150% of the target amount. The outstanding number of performance shares reflected in the table represents the number of shares expected to be awarded based on estimated achievement of the goals as of year end. However, at March 31, 2015, the maximum number of performance-based shares that could be issued if performance is attained at 150% of target based on the grants made to date was approximately 324,672 shares.
As of March 31, 2015, there was $2.5 million of unrecognized compensation cost related to nonvested restricted stock awards expected to be recognized over a period of 2.50 years.
17. Fair Value of Financial Instruments and Interest Rate Risk
The Company measures, monitors and discloses certain of its assets and liabilities on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value are as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Level 1 inputs are considered to be the most transparent and reliable and Level 3 inputs are considered to be the least transparent and reliable. The Company assumes the use of the principal market to conduct a transaction of each particular asset or liability being measured and then considers the assumptions that market participants would use when pricing the asset or liability. Whenever possible, the Company first looks for quoted prices for identical assets or liabilities in active markets (Level 1 inputs) to value each asset or liability. However, when inputs from identical assets or liabilities on active markets are not available, the Company utilizes market observable data for similar assets and liabilities. The Company maximizes the use of observable inputs and limits the use of unobservable inputs to occasions when observable inputs are not available. The need to use unobservable inputs generally results from the lack of market liquidity of the actual financial instrument or of the underlying collateral. Although in some instances, third party price indications may be available, limited trading activity can challenge the observability of these quotations.
Assets and Liabilities Measured at Fair Value on a Recurring Basis
Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.
Securities Available for Sale
Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and classified as Level 2 securities. Level 2 securities include U.S. government agency, agency mortgage-backed, states and political subdivisions, corporate debt, and other securities. Where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Interest Rate Swaps and Loans

Interest rate swaps are valued using the system used to value all of NAB's traded securities and derivatives using LIBOR rates. The fair value of loans accounted for under the fair value option represents the net carrying value of the loan, plus the equal and opposite

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amount of the value of the swap needed to hedge the interest rate risk and an adjustment for credit risk based on our assessment of existing market conditions for the specific portfolio of loans. This is used due to the strict prepayment penalties put in the loan terms to cover the cost of exiting the hedge of the loans in the case of early prepayment or termination. The adjustment for credit risk on loans accounted for under the fair value option is not significant to the overall fair value of the loans. The fair values estimated by NAB use interest rates that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. The Company is required to post cash collateral to NAB for interest rate derivative contracts that are in a liability position, thus a credit risk adjustment on interest rate swaps is not warranted.
The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2015 and September 30, 2014 (in thousands):

	Fair Value	Level 1	Level 2	Level 3
As of March 31, 2015				
U.S. Treasury securities	$275,477	$275,477	$—	$—
U.S. Agency securities	74,801	—	74,801	—
Mortgage-backed securities	1,044,021	—	1,044,021	—
States and political subdivision securities	2,108	—	150	1,958
Corporate debt securities	5,062	—	5,062	—
Other	1,039	—	1,039	—
Securities available for sale	$1,402,508	$275,477	$1,125,073	$1,958
Derivatives-assets	$27	$—	$27	$—
Derivatives-liabilities	48,814	—	48,814	—
Fair value loans and written loan commitments	1,060,598	—	1,060,598	—

	Fair Value	Level 1	Level 2	Level 3
As of September 30, 2014				
U.S. Treasury securities	$222,725	$222,725	$—	$—
U.S. Agency securities	—	—	—	—
Mortgage-backed securities	1,103,415	—	1,103,415	—
States and political subdivision securities	2,189	—	160	2,029
Corporate debt securities	11,873	—	11,873	—
Other	1,040	—	1,040	—
Securities available for sale	$1,341,242	$222,725	$1,116,488	$2,029
Derivatives-assets	$19	$—	$19	$—
Derivatives-liabilities	13,092	—	13,092	—
Fair value loans and written loan commitments	985,411	—	985,411	—

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The following table presents the changes in Level 3 financial instruments for the three months ended March 31, 2015 and 2014 (in thousands):

	Other Securities Available for Sale
Balance as of December 31, 2014	$ 1,958
Principal paydown	—
Balance as of March 31, 2015	$ 1,958
Balance as of December 31, 2013	$ 2,243
Principal paydown	—
Balance as of March 31, 2014	$ 2,243

The following table presents the changes in Level 3 financial instruments for the six months ended March 31, 2015 and 2014 (in thousands):

	Other Securities Available for Sale
Balance as of September 30, 2014	$ 2,029
Principal paydown	(71)
Balance as of March 31, 2015	$ 1,958
Balance as of September 30, 2013	$ 2,243
Principal paydown	—
Balance as of March 31, 2014	$ 2,243

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of the impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor, if necessary, to the appraised value and including costs to sell. Because many of these inputs are not observable, the measurements are classified as Level 3.

Other Real Estate Owned (OREO)

Other real estate owned consists of loan collateral that has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate. OREO is recorded initially at fair value of the collateral less estimated selling costs. Subsequent to foreclosure, valuations are updated periodically, and the assets may be marked down further to fair value less selling costs, reflecting a valuation allowance. Fair value measurements may be based upon appraisals, third-party price opinions, or internally developed pricing methods. These measurements are classified as Level 3.

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Mortgage Loans Held for Sale
Fair value of mortgage loans held for sale is based on either quoted prices for the same or similar loans, or values obtained from third parties, or are estimated for portfolios of loans with similar financial characteristics and are therefore considered a Level 2 valuation.
The following tables present the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2015 and September 30, 2014 (in thousands):

	Fair Value	Level 1	Level 2	Level 3
As of March 31, 2015				
Other real estate owned	$25,162	$—	$—	$25,162
Impaired loans	161,904	—	—	161,904
Loans held for sale, at lower of cost or fair value	9,006	—	9,006	—
As of September 30, 2014				
Other real estate owned	$36,879	$—	$—	$36,879
Impaired loans	111,265	—	—	111,265
Loans held for sale, at lower of cost or fair value	10,381	—	10,381	—

The valuation techniques and significant unobservable inputs used to measure Level 3 fair value measurements at March 31, 2015 were as follows (in thousands):

Financial Instrument	Fair Value of Assets / (Liabilities) at March 31, 2015	Valuation Technique(s)	Unobservable Input	Range	Weighted Average
Other real estate owned	$25,162	Appraisal value	Property specific adjustment	N/A	N/A
Impaired loans	$161,904	Appraisal value	Property specific adjustment	N/A	N/A

Fair Value of Financial Instruments
For financial instruments that have quoted market prices, those quotes are used to determine fair value. Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate are assumed to have a fair value that approximates carrying value, after taking into consideration any applicable credit risk. If no market quotes are available, financial instruments are valued by discounting the expected cash flows using an estimated current market interest rate for the financial instrument.
The short maturity of the Company’s assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates carrying value. Such financial instruments are reported in the following consolidated balance sheet categories: cash and due from banks, securities sold under agreements to repurchase, and accrued interest.
Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include premises and equipment, deferred income taxes, goodwill, and core deposit and other intangibles. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

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Off-balance sheet instruments (commitments to extend credit and standby letters of credit) are generally short-term and at variable rates. Therefore, both the carrying amount and the estimated fair value associated with these instruments are immaterial. Fair values for balance sheet instruments as of March 31, 2015 and September 30, 2014, are as follows (in thousands):

		March 31, 2015		September 30, 2014	
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and due from banks	Level 1	$358,440	$358,440	$256,639	$256,639
Loans, net excluding fair valued loans and loans held for sale	Level 3	5,950,437	5,935,242	5,744,157	5,734,274
Accrued interest receivable	Level 2	37,933	37,933	42,609	42,609
Federal Home Loan Bank stock	Level 2	31,810	31,810	35,922	35,922
Liabilities					
Deposits	Level 3	$7,487,698	$7,499,432	$7,052,180	$7,057,591
FHLB advances, related party notes payable, and other borrowings	Level 2	516,314	510,339	616,389	604,615
Securities sold under repurchase agreements	Level 2	163,343	163,343	161,687	161,687
Accrued interest payable	Level 2	4,469	4,469	5,273	5,273
Subordinated debentures	Level 2	56,083	56,084	56,083	56,084

The following methods and assumptions were used in estimating the fair value of financial instruments that were not previously disclosed:
Cash and cash due from banks: Due to the short term nature of cash and cash equivalents, the estimated fair value is equal to the carrying value and they are categorized as a Level 1 fair value measurement.
Loans, net excluding fair valued loans and loans held for sale: The fair value of the loan portfolio is estimated using observable inputs including estimated cash flows, and discount rates based on interest rates currently being offered for loans with similar terms, to borrowers of similar credit quality. Loans held for investment are categorized as a Level 3 fair value measurement.
Accrued interest receivable: Due to the nature of accrued interest receivable, the estimated fair value is equal to the carrying value and they are categorized as a Level 2 fair value measurement.
Federal Home Loan Bank stock: The carrying amount of FHLB stock approximates its fair value as it can only be redeemed with the FHLB at par value. Federal Home Loan Bank stock has been categorized as a Level 2 fair value measurement.
Deposits: The estimated fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings, NOW, and money market accounts, is equal to the amount payable on demand. The fair value of interest-bearing time deposits is based on the discounted value of contractual cash flows of such deposits, taking into account the option for early withdrawal. The discount rate is estimated using the rates offered by the Company, at the respective measurement dates, for deposits of similar maturities. Deposits have been categorized as a Level 3 fair value measurement.
FHLB advances, related party notes payable, and other borrowings: The fair value of FHLB advances, related party notes payable, and other borrowings is estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements. In the absence of a reasonably precise methodology to determine the fair value of the credit agreement, carrying value has been used to represent fair value. FHLB advances, related party notes payable, and other borrowings have been categorized as a Level 2 fair value measurement.

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Notes to Consolidated Financial Statements (Unaudited)

Securities sold under repurchase agreements: The Company's repurchase agreements are overnight transactions that mature the day after the transaction, and as a result of this short-term nature, the estimated fair value equals the carrying value. Securities sold under repurchase agreements have been categorized as a Level 2 fair value measurement.
Accrued interest payable: Due to the nature of accrued interest payable, the estimated fair value is equal to the carrying value and they are categorized as a Level 2 fair value measurement.
Subordinated Debentures: The fair value of subordinated debentures is estimated using discounted cash flow analysis, based on current incremental debt rates. Subordinated debentures have been categorized as a Level 2 fair value measurement.
18. Earnings per Share
Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding outstanding non-vested restricted stock awards. Diluted earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding determined for the basic earnings per share calculation plus the dilutive effect of stock compensation using the treasury stock method.
The following information was used in the computation of basic earnings per share (EPS) for the three and six months ended March 31, 2015 and 2014 (in thousands except share data).

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Net income	$19,724	$25,971	$46,421	$54,575
Weighted average common shares outstanding	57,898,335	57,886,114	57,897,059	57,886,114
Dilutive effect of stock based compensation	18,467	—	9,234	—
Weighted average common shares outstanding for diluted earnings per share calculation	57,916,802	57,886,114	57,906,293	57,886,114
Basic earnings per share	$0.34	$0.45	$0.80	$0.94
Diluted earnings per share	$0.34	$0.45	$0.80	$0.94

The Company had 216,448 and 0 shares of unvested performance stock as of March 31, 2015 and 2014, respectively, that were not included in the computation of diluted earnings per common share because performance conditions for vesting had not been met. The Company had 1,665 and 0 shares of anti-dilutive stock awards outstanding as of March 31, 2015 and 2014, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The historical consolidated financial data discussed below reflects our historical results of operations and financial condition and should be read in conjunction with our financial statements and related notes thereto presented elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014, previously filed with the SEC. In addition to historical financial data, this discussion includes certain forward-looking statements regarding events and trends that may affect our future results. Such statements are subject to risks and uncertainties that could cause our actual results to differ materially. See "Cautionary Note Regarding Forward-Looking Statements." For a more complete discussion of the factors that could affect our future results, see "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014. Any discrepancies included in this filing between totals and the sums of percentages and dollar amounts presented, or between rounded dollar amounts, are due to rounding.

Unless otherwise noted, references to "the current period" or "the current quarter" refer to the fiscal quarter ended March 31, 2015 and references to "the comparable period" or "the comparable quarter" refer to the fiscal quarter ended March 31, 2014.

Tax Equivalent Presentation

All references to net interest income, net interest margin, interest income on loans other than loans acquired with deteriorated credit quality, yield on loans acquired with deteriorated credit quality and the related non-GAAP adjusted measure of each item are presented on a fully-tax equivalent basis unless otherwise noted.

Overview

We are a full-service regional bank holding company focused on relationship-based business and agribusiness banking. We serve our customers through 158 branches in attractive markets in seven states: South Dakota, Iowa, Nebraska, Colorado, Arizona, Kansas and Missouri. During the quarter ended March 31, 2015, we closed three branches in Omaha, Nebraska and two branches in Sioux Falls, South Dakota. We do not believe these branch closures will have a material impact on our revenue in future periods and expect that we will achieve some cost savings in future periods as a result of the closures.

We were established more than 70 years ago and have achieved strong market positions by developing and maintaining extensive local relationships in the communities we serve. By leveraging our business and agribusiness focus, presence in attractive markets, highly efficient operating model and robust approach to risk management, we have achieved significant and profitable growth—both organically and through disciplined acquisitions. We provide financial results based on a fiscal year ending September 30 as a single reportable segment.

Net income was $19.7 million for the second quarter of fiscal year 2015, a decrease of $6.2 million, or 24%, compared to the second quarter of fiscal year 2014. Higher credit-related charges of $14.0 million incurred during the quarter were the primary driver of the lower net income, including provision for loan losses of $9.7 million, a $12.4 million pre-tax increase compared to the same quarter in fiscal year 2014 in which we experienced a $2.7 million release of provision for loan loan losses, and $4.3 million of other credit-related charges that impacted other financial statement line items. Increased net interest income and lower noninterest expense partially offset the increase in credit-related charges. Fiscal year-to-date net income was $46.4 million, compared to $54.6 million for the same period of fiscal year 2014.

Our efficiency ratio remained strong during the quarter at 51.7%, higher than the previous quarter due in part to fewer days in the quarter, which directly impacts our net interest income but has little offsetting impact on noninterest expense. Our efficiency ratio is 50.1% on a fiscal year-to-date basis. For more information on our efficiency ratio, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" below.

Net interest margin was 3.89%, 3.91% and 3.96%, respectively, for the quarters ended March 31, 2015, December 31, 2014, and March 31, 2014 and 3.90% and 3.99%, respectively, for the six months ended March 31, 2015 and March 31, 2014. Adjusted net interest margin, which reflects the realized gain (loss) on interest rate swaps, was 3.64%, 3.67% and 3.73%, respectively, and 3.66% and 3.77%, respectively, for the same periods. We believe our adjusted net interest margin is more representative of our underlying

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performance and is the measure we use internally to evaluate our results. Net interest margin and adjusted net interest margin declined compared to the second quarter of fiscal year 2014 primarily due to reduced asset yields. Pricing on new loans continued to be impacted by competitive pressures in the market and the continued near-zero benchmark interest rate environment, while investment portfolio yields have also declined. These reductions in asset yields were partially offset by a 4 basis point reduction in the cost of deposits over the same period, driven in part by a continued favorable change in deposit mix. For more information on our adjusted net interest margin, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" below.

Net income for the quarter represents earnings per common share of $0.34, compared to $0.45 in the comparable period, and is $0.80 fiscal year-to-date compared to $0.94 for the same period in fiscal year 2014. On April 28, 2015, our board of directors declared a dividend of $0.12 per common share payable on May 29, 2015 to owners of record as of the close of business on May 15, 2015.

Both loans and deposits grew during the quarter. Total loans increased $85.7 million during the quarter and from $6.79 billion at September 30, 2014 to $7.07 billion at March 31, 2015, a fiscal year-to-date increase of $285.0 million or 4.2%. Year-to-date loan growth remains balanced across the business and agriculture lending components of the portfolio including commercial non-real estate, commercial real estate and agriculture. Consistent with our expectations at the end of the first fiscal quarter, the agriculture portfolio did contract slightly during the quarter as a result of our customers' calendar year-end tax planning. The overall loan portfolio remains well diversified across a number of segments, industries and geographies. Deposits increased from $7.05 billion at September 30, 2014 to $7.49 billion at March 31, 2015, an increase of $435.5 million or 6.2%. Deposit growth during the quarter was $248.5 million. The growth during the quarter was focused within interest-bearing business and consumer transaction accounts, while noninterest-bearing transaction account and certificate of deposit balances each declined. Our deposit growth is typically focused within our first and second fiscal quarters and we do expect some seasonal deposit outflow in the third fiscal quarter driven by our customers' income tax needs and other factors.

We believe our overall asset quality remains strong, but some of our asset quality metrics declined during the quarter. At March 31, 2015, nonperforming loans were $74.3 million, with $27.8 million of the balance at March 31, 2015, covered by FDIC loss-sharing arrangements. Total nonperforming loans represent a 6% improvement compared to September 30, 2014, but have increased 9% since December 31, 2014. OREO balances have declined by $6.0 million since September 30, 2014, with $8.6 million of the $43.6 million of total OREO as of March 31, 2015 covered by FDIC loss-sharing arrangements.

Watch-rated loans increased 34% during the quarter to $384.4 million as of March 31, 2015. Some of the increase reflects ongoing proactive management of credit exposures and some of the increase resulted from a broad-based review of the loan portfolio performed in connection with the higher credit-related charges recognized during the quarter described in this quarterly report. We do not anticipate a significant negative trend in future charge-offs as a result of the increase in "Watch" loans.

Excluding charge-offs on acquired loans subject to purchase accounting fair value adjustments, net charge-offs for the second quarter of fiscal year 2015 were $9.1 million, or 0.52% of average loans on an annualized basis, bringing net charge-offs for the first six months of fiscal year 2015 to $8.1 million or 0.23% of average loans on an annualized basis. For the comparable periods in fiscal year 2014, net charge-offs were $6.2 million, or 0.39% of total loans on an annualized basis, and $5.1 million, or 0.16% of loans on an annualized basis, respectively.

Our capital position is strong and stable, with Tier 1 capital, total capital and Tier 1 leverage ratios of 11.6%, 12.6% and 9.3%, respectively, at March 31, 2015 compared to 11.8%, 12.9% and 9.1%, respectively, at December 31, 2014. The primary driver of the decrease in capital ratios was our adoption of the Basel III rules on January 1, 2015. This drove an increase in risk weighted assets of approximately $256 million, primarily related to the provisions surrounding unused lines of credit and, to a lesser extent, high-volatility commercial real estate. Our Common Equity Tier 1 ratio calculated under the new capital rules was 10.8% at March 31, 2015. Our tangible common equity to tangible assets ratio was 8.4% at March 31, 2015 compared to 8.3% at December 31, 2014. For more information on our tangible common equity to tangible assets ratio, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" below.

Until our initial public offering in October 2014 we were a wholly owned subsidiary of NAB, and our results have been part of NAB's consolidated business operations since NAB acquired us in 2008. NAB is a large financial

institution incorporated in Australia and listed on the Australian Securities Exchange with operations in Australia, New Zealand, the United Kingdom, the United States and parts of Asia. Historically, NAB and its affiliates have provided financial and administrative support to us. In connection

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with our initial public offering, we and NAB entered into certain agreements that provide a framework for our ongoing relationship, including a Stockholder Agreement governing NAB's rights as a controlling stockholder and a Transitional Services Agreement pursuant to which NAB has agreed to continue to provide us with certain services for a transition period. Our costs associated with these services have not been significant to date and we do not expect our costs associated with these services to be significant in the future.

Key Factors Affecting Our Business and Financial Statements

As discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014, our business and results of operations are impacted by several key factors, including economic conditions, interest rates, asset quality and loss-sharing arrangements, banking laws and regulations, competition, our operational efficiency, goodwill and amortization of other intangible assets and accounting for loans and interest rate swaps at fair value. There have been no material changes to these factors except as otherwise supplemented below and within our Quarterly Report on Form 10-Q for the three months ended December 31, 2014.

At March 31, 2015, we had $697.8 million of goodwill, $622.4 million of which relates to the acquisition of us by NAB in 2008 and was pushed down to our balance sheet, with the balance relating to subsequent acquisitions completed by us. Under relevant accounting guidance, we are required to review goodwill for impairment annually, or more frequently if events or circumstances indicate that the fair value of our business may be less than its carrying value. We determine impairment by comparing the implied fair value of the goodwill with the carrying amount of that goodwill. If the carrying amount of the goodwill exceeds the implied fair value of that goodwill, evidence of impairment is present and we will measure the impairment and potentially record an impairment loss in the amount of the excess of the carrying amount over the fair value. The valuation of goodwill is dependent on forward-looking expectations related to nationwide and local economic conditions and our associated financial performance. A significant decline in our expected future cash flows, a material change in interest rates, a significant adverse change in the business climate, slower growth rates, or a significant or sustained decline in the price of our common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. In addition, other factors, such as a sale of our common stock by our controlling stockholder at a price below our book value per share, could negatively impact the implied fair value of our goodwill. We cannot provide assurance that we will not be required to record any charges for impairment in the future. Our recognition of any such impairment could adversely affect our business and future financial results. See "Item 1A. Risk Factors—Risks Related to Our Business—The value of our goodwill and other intangible assets may decline in the future" in our Annual Report on Form 10-K.

Our asset quality remained strong during fiscal year 2014 with continued declines in total nonperforming loans, net charge-offs and allowance for loan losses. These declines helped drive reductions in our provision for loan losses in fiscal year 2014. While our asset quality metrics remained strong through the first quarter of fiscal year 2015, we experienced higher credit-related charges in the second quarter related to a small number of C&I lending exposures and higher OREO charges. We had credit related charges of $14.0 million, including $2.6 million of net OREO charges for the three months ended March 31, 2015. This compares to $7.2 million for the three months ended December 31, 2014. The increase is primarily driven by a small number of C&I lending exposures and higher OREO charges that we believe are driven by customer-specific developments. We may have higher credit-related charges in the future.

Results of Operations—Three and Six Month Periods Ended March 31, 2015 and 2014

Overview

The following table highlights certain key financial and performance information for the periods ended March 31, 2015 and 2014:

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	For the three months ended March 31,	
	2015	2014
	(dollars in thousands, except per share amounts)	
Operating Data:		
Interest and dividend income (FTE)	$89,794	$85,994
Interest expense	7,579	7,929
Noninterest income	6,936	10,140
Noninterest expense	48,438	49,326
Provision for loan losses	9,679	(2,690)
Net income	19,724	25,971
Earnings per common share	$0.34	$0.45
Performance Ratios:		
Net interest margin (FTE)	3.89%	3.96%
Adjusted net interest margin (FTE) [1]	3.64%	3.73%
Return on average total assets	0.83%	1.15%
Return on average common equity	5.49%	7.41%
Return on average tangible common equity [1]	11.8%	17.3%
Efficiency ratio [1]	51.7%	50.6%

[1] This is a non-GAAP financial measure we believe is helpful to interpreting our financial results. For more information on this non-GAAP financial measure, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" below.

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	For the six months ended March 31,	
	2015	2014
	(dollars in thousands, except per share amounts)	
Operating Data:		
Interest and dividend income (FTE)	$181,876	$175,796
Interest expense	15,248	16,559
Noninterest income	14,836	20,966
Noninterest expense	95,529	97,625
Provision for loan losses	12,998	(3,565)
Net income	46,421	54,575
Earnings per common share	$0.80	$0.94
Performance Ratios:		
Net interest margin (FTE)	3.90%	3.99%
Adjusted net interest margin (FTE) [1]	3.66%	3.77%
Return on average total assets	0.96%	1.19%
Return on average common equity	6.44%	7.70%
Return on average tangible common equity [1]	13.8%	17.9%
Efficiency ratio [1]	50.1%	49.0%

[1] This is a non-GAAP financial measure we believe is helpful to interpreting our financial results. For more information on this non-GAAP financial measure, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" below.

Net Interest Income

The following tables presents net interest income, net interest margin and adjusted net interest margin for the three and six month periods ended March 31, 2015 and 2014:

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	For the three months ended March 31,	
	2015	2014
	(dollars in thousands)	
Net interest income:		
Total interest and dividend income (FTE)	$89,794	$85,994
Less: Total interest expense	7,579	7,929
Net interest income (FTE)	82,215	78,065
Less: Provision for loan losses	9,679	(2,690)
Net interest income after provision for loan losses (FTE)	$72,536	$80,755
Net interest margin (FTE) and adjusted net interest margin (FTE):		
Average interest-earning assets	$8,560,477	$8,001,112
Average interest-bearing liabilities	$8,106,234	$7,683,451
Net interest margin (FTE)	3.89%	3.96%
Adjusted net interest margin (FTE) [(1)]	3.64%	3.73%

[1] This is a non-GAAP financial measure we believe is helpful to interpreting our financial results. For more information on this non-GAAP financial measure, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" below.

	For the six months ended March 31,	
	2015	2014
	(dollars in thousands)	
Net interest income:		
Total interest and dividend income (FTE)	$181,876	$175,796
Less: Total interest expense	15,248	16,559
Net interest income (FTE)	166,628	159,237
Less: Provision for loan losses	12,998	(3,565)
Net interest income after provision for loan losses (FTE)	$153,630	$162,802
Net interest margin (FTE) and adjusted net interest margin (FTE):		
Average interest-earning assets	$8,558,582	$8,012,542
Average interest-bearing liabilities	$8,131,966	$7,723,912
Net interest margin (FTE)	3.90%	3.99%
Adjusted net interest margin (FTE) [(1)]	3.66%	3.77%

[1] This is a non-GAAP financial measure we believe is helpful to interpreting our financial results. For more information on this non-GAAP financial measure, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" below.

Net interest income was $82.2 million for the second quarter of fiscal year 2015 compared to $78.1 million for the same quarter in fiscal year 2014, an increase of 5%. The increase was driven by higher interest income on loans, attributable loan growth over the previous year and more gross income related to the portion of the portfolio acquired with deteriorated credit quality, and lower deposit interest expense, partially offset by lower interest income on the investment portfolio. Compared to the same quarter in fiscal year 2014, the investment portfolio represented a smaller portion of total interest-earning assets driven by higher loan growth compared to deposit growth over the year and a higher average cash position, which was funded in part by investment portfolio run-off. Net interest margin was 3.89% for the second quarter of fiscal year 2015, compared with 3.96% for the same period in fiscal year 2014. Adjusted net interest margin was 3.64% and 3.73%, respectively, over the same periods. The lower net interest margin and adjusted net interest margin were attributable to lower asset yields, partially offset by a reduction in cost of deposits. For more

information on our adjusted net interest margin and adjusted net interest income, including a reconciliation of each to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" below.

Net interest income was $166.6 million for the first six months of fiscal year 2015, compared to $159.2 million for the same period in fiscal year 2014, an increase of 5%. Similar to the quarterly period, the increase was driven by higher interest income on loans and lower deposit interest expense, partially offset by lower investment portfolio interest income. Net interest margin was 3.90% for the first six months of fiscal year 2015, compared to 3.99% for the same period in fiscal year 2014, while adjusted net interest margin was 3.66% and 3.77%, respectively, for the same periods. The decreases were driven by lower asset yields and a higher average cash balance, due in part to the impact of the our largest shareholder holding our initial public offering proceeds on deposit in our bank for the majority of the first quarter of fiscal year 2015, partially offset by lower cost of deposits.

The following table presents the distribution of average assets, liabilities and equity, interest income and resulting yields on average interest-earning assets, and interest expense and rates on average interest-bearing liabilities for the current and comparable three and six month periods. Loans on nonaccrual status, totaling $74.3 million at March 31, 2015 and $91.6 million at March 31, 2014, are included in the average balances below. Any interest that had accrued as of the date of nonaccrual is immediately reversed as a reduction to interest income, while any interest subsequently recovered is recorded in the period of recovery. Tax-exempt loans and securities, totaling $539.1 million at March 31, 2015 and $384.8 million at March 31, 2014, are typically entered at lower interest rate arrangements than comparable non-exempt loans and securities. The amount of interest income reflected below has been adjusted to include the amount of tax benefit realized in the period and as such is presented on a fully-tax equivalent basis, the calculation of which is outlined in the discussion of non-GAAP items later in this section. Loans acquired with deteriorated credit quality represent loans accounted for in accordance with ASC 310-30 Accounting for Purchased Loans that were credit impaired at the time we acquired them. Loans other than loans acquired with deteriorated credit quality represent loans we have originated and loans we have acquired that were not credit impaired at the time we acquired them.

	For the three months ended					
	March 31, 2015			March 31, 2014		
	Average Balance	Interest (FTE)	Yield / Cost[1]	Average Balance	Interest (FTE)	Yield / Cost[1]
Assets						
Cash and due from banks	$265,929	$160	0.24 %	$191,031	$117	0.25 %
Investment securities	1,334,460	5,650	1.72 %	1,381,475	6,836	2.01 %
Loans, other than loans acquired with deteriorated credit quality, net[2]	6,828,510	81,907	4.86 %	6,224,179	78,155	5.09 %
Loans acquired with deteriorated credit quality, net	131,578	2,077	6.40 %	204,428	885	1.76 %
Loans, net	6,960,088	83,984	4.89 %	6,428,607	79,040	4.99 %
Total interest-earning assets	8,560,477	89,794	4.25 %	8,001,113	85,993	4.36 %
Noninterest-earning assets	1,093,046			1,155,039		
Total assets	$9,653,523	$89,794	3.77 %	$9,156,152	$85,993	3.81 %
Liabilities and Stockholders' Equity						
Noninterest-bearing deposits	$1,282,530			$1,216,315		
NOW, MMDA and savings deposits	4,447,606	$3,266	0.30 %	3,978,103	$2,318	0.24 %
CDs	1,567,763	2,718	0.70 %	1,940,266	4,113	0.86 %
Total deposits	7,297,899	5,984	0.33 %	7,134,684	6,431	0.37 %
Securities sold under agreements to repurchase	182,386	150	0.33 %	192,333	143	0.30 %
FHLB advances and other borrowings	528,571	893	0.69 %	259,056	803	1.26 %
Related party notes payable	41,295	227	2.23 %	41,295	226	2.22 %
Subordinated debentures and other	56,083	325	2.35 %	56,083	326	2.36 %
Total borrowings	808,335	1,595	0.80 %	548,767	1,498	1.11 %
Total interest-bearing liabilities	8,106,234	$7,579	0.38 %	7,683,451	$7,929	0.42 %
Noninterest-bearing liabilities	86,288			51,768		
Stockholders' equity	1,458,131			1,420,933		
Total liabilities and stockholders' equity	$9,650,653			$9,156,152		
Net interest spread			3.39 %			3.39 %
Net interest income and net interest margin (FTE)		$82,215	3.89 %		$78,064	3.96 %
Less: Tax equivalent adjustment		$1,590			$1,107	
Net interest income and net interest margin - ties to Consolidated Statements of Comprehensive Income		$80,625	3.82 %		$76,957	3.90 %

[1] Annualized for all partial-year periods.

[2] Interest income includes $0.1 million and $0.9 million for the second quarter of fiscal year 2015 and 2014, respectively, resulting from accretion of purchase accounting discount associated with acquired loans.

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	For the six months ended					
	March 31, 2015			March 31, 2014		
	Average Balance	Interest (FTE)	Yield / Cost[1]	Average Balance	Interest (FTE)	Yield / Cost[1]
Assets						
Cash and due from banks	$354,415	$444	0.25 %	$195,307	$301	0.31 %
Investment securities	1,335,348	11,600	1.74 %	1,428,379	14,020	1.97 %
Loans, other than loans acquired with deteriorated credit quality, net[2]	6,727,508	164,783	4.91 %	6,186,621	158,701	5.14 %
Loans acquired with deteriorated credit quality, net	141,311	5,049	7.17 %	202,235	2,774	2.75 %
Loans, net	6,868,819	169,832	4.96 %	6,388,856	161,475	5.07 %
Total interest-earning assets	8,558,582	181,876	4.26 %	8,012,542	175,796	4.40 %
Noninterest-earning assets	1,097,254			1,189,536		
Total assets	$9,655,836	$181,876	3.78 %	$9,202,078	$175,796	3.83 %
Liabilities and Stockholders' Equity						
Noninterest-bearing deposits	$1,387,396			$1,226,039		
NOW, MMDA and savings deposits	4,298,739	$5,918	0.28 %	3,934,543	$4,566	0.23 %
CDs	1,625,814	6,081	0.75 %	1,956,472	8,744	0.90 %
Total deposits	7,311,949	11,999	0.33 %	7,117,054	13,310	0.38 %
Securities sold under agreements to repurchase	175,111	296	0.34 %	198,207	289	0.29 %
FHLB advances and other borrowings	547,528	1,839	0.67 %	311,273	1,840	1.19 %
Related party notes payable	41,295	459	2.23 %	41,295	460	2.23 %
Subordinated debentures and other	56,083	655	2.34 %	56,083	660	2.36 %
Total borrowings	820,017	3,249	0.79 %	606,858	3,249	1.07 %
Total interest-bearing liabilities	8,131,966	$15,248	0.38 %	7,723,912	$16,559	0.43 %
Noninterest-bearing liabilities	77,886			56,688		
Stockholders' equity	1,445,984			1,421,478		
Total liabilities and stockholders' equity	$9,655,836			$9,202,078		
Net interest spread			3.40 %			3.40 %
Net interest income and net interest margin (FTE)		$166,628	3.90 %		$159,237	3.99 %
Less: Tax equivalent adjustment		$3,094			$2,139	
Net interest income and net interest margin - ties to Consolidated Statements of Comprehensive Income		$163,534	3.83 %		$157,098	3.93 %

[1] Annualized for all partial-year periods.

[2] Interest income includes $0.2 million and $1.2 million for the first six months of fiscal year 2015 and 2014, respectively, resulting from accretion of purchase accounting discount associated with acquired loans.

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Interest and Dividend Income

The following tables present interest and dividend income for the three and six month periods ended March 31, 2015 and 2014:

	Three months ended March 31,	
	2015	2014
	(dollars in thousands)	
Interest and dividend income:		
Loans	$82,394	$77,933
Taxable securities	5,379	6,623
Nontaxable securities	13	14
Dividends on securities	258	199
Federal funds sold and other	160	117
Total interest and dividend income (GAAP)	88,204	84,886
Tax equivalent adjustment	1,590	1,107
Total interest and dividend income (FTE)	$89,794	$85,993

	Six months ended March 31,	
	2015	2014
	(dollars in thousands)	
Interest and dividend income:		
Loans	$166,738	$159,336
Taxable securities	11,066	13,592
Nontaxable securities	26	28
Dividends on securities	508	400
Federal funds sold and other	444	301
Total interest and dividend income (GAAP)	178,782	173,657
Tax equivalent adjustment	3,094	2,139
Total interest and dividend income (FTE)	$181,876	$175,796

Total interest and dividend income consists primarily of interest income on loans and interest and dividend income on our investment portfolio. Total interest and dividend income was $89.8 million for the second quarter of fiscal year 2015, compared to $86.0 million for the same period of fiscal year 2014, an increase of 4%. Total interest and dividend income was $181.9 million for the first six months of fiscal year 2015, compared to $175.8 million for the same period of fiscal year 2014, an increase of 3%. Significant components of interest and dividend income are described in further detail below.

Loans. Interest income on all loans increased to $84.0 million in second quarter of fiscal year 2015 from $79.0 million in the first quarter of fiscal year 2014, an increase of 6% between the two periods. The growth was driven primarily by higher average loan balances driven by organic loan origination over the course of the year, partially offset by lower overall loan yields as a result of pricing pressure on new and renewed loans. Interest income on loans acquired with deteriorated credit quality increased $1.2 million between the two periods, primarily driven by lower amortization of the indemnification assets related to these loans in the current period as those assets related to the commercial FDIC loss-sharing arrangement are nearly fully amortized.

Interest income on all loans increased to $169.8 million in the first six months of fiscal year 2015 from $161.5 million in the same period of fiscal year 2014, an increase of 5%. Similar to the quarterly period, the growth was driven by higher average loan balances due to organic growth, partially offset by lower overall loan yields. Interest income on loans acquired with deteriorated credit

quality increased $2.3 million between the two periods, again primarily driven by lower amortization of the indemnification assets related to these loans in the current period.
Our yield on loans is affected by market interest rates, the level of adjustable-rate loan indices, interest rate floors and caps, customer repayment activity, the level of loans held for sale, portfolio mix, and the level of nonaccrual loans. The average tax equivalent yield on loans, other than loans acquired with deteriorated credit quality, was 4.86% for the second quarter of fiscal year 2015, a decrease of 23 basis points compared to 5.09% for the same period in fiscal year 2014. Adjusted for the current realized gain (loss) on derivatives we use to manage interest rate risk on certain of our loans at fair value, which we believe represents the underlying economics of the transactions, the adjusted yield on loans, other than loans acquired with deteriorated credit quality, was 4.55% for the current quarter, a 26 basis point decrease compared to the second quarter of fiscal year 2014. The average tax equivalent yield on loans, other than loans acquired with deteriorated credit quality, was 4.91% for the first six months of fiscal year 2015, a decrease of 23 basis points compared to 5.14% for the same period in fiscal year 2014. Adjusted for the current realized gain (loss) on derivatives, the adjusted yield on loans, other than loans acquired with deteriorated credit quality, was 4.60% and 4.86%, respectively, for the same periods. These decreases continue to be attributable to the competitive interest rate environment for high quality commercial and agricultural credits across our footprint and a prolonged rate cycle with short-term rates at or near zero.
The average yield on loans acquired with deteriorated credit quality was 6.40% for the second quarter of fiscal year 2015, compared to 1.76% for the comparable period in fiscal year 2014 and 7.17% for the first six months of fiscal year 2015 compared to 2.75% for the same period in fiscal year 2014. The yield on this portion of the portfolio is heavily impacted by the amortization rates for the related FDIC indemnification assets, which we pass through interest income, and which was much higher in fiscal year 2014 as a result of overall credit-quality improvement in the acquired portfolio and the upcoming expiration of the commercial FDIC loss-sharing arrangement. While we do not expect consistent high yields on this portion of the portfolio going forward, the portfolio continues to run off and represents a very small portion of the overall loan portfolio with average balances of $131.6 million for the second quarter of fiscal year 2015 and $204.4 million for the same period of fiscal year 2014, 2% and 3% of the total average loan portfolio, respectively.
Average net loan balances for the second quarter of fiscal year 2015 were $6.96 billion, representing an 8% increase compared to the same period in fiscal year 2014. The growth was focused in the CRE, commercial non-real estate ("C&I") and agribusiness segments of the portfolio.
Loan-related fee income of $2.3 million is included in interest income for the second quarter of fiscal year 2015 compared to $1.8 million for the same period in fiscal year 2014. Loan-related fee income was $4.5 million for the first six months of fiscal year 2015 compared to $3.9 million for the same period of fiscal year 2014. In addition, certain fees collected at loan origination are considered to be a component of yield on the underlying loans and are deferred and recognized into income over the life of the loans. Amortization related to the FDIC indemnification assets of $2.1 million and $4.7 million for the second quarter of fiscal years 2015 and 2014, respectively, and $4.6 million and $7.9 million for the first six months of fiscal years 2015 and 2014, respectively, is included as a reduction to interest income.
Investment Portfolio. Interest and dividend income on investments includes income earned on investment securities and FHLB stock. During the second quarter of fiscal year 2015, the balance of our investment portfolio increased by $138.5 million, or 11%, to $1.40 billion. The increase was driven by investment purchases made during the quarter as a result of strong deposit growth and excess liquidity invested to earn additional interest income. Interest and dividend income on investments decreased from $6.8 million in the second quarter of fiscal year 2014 to $5.7 million in the second quarter of fiscal year 2015, a decrease of 17%, driven both by lower average balances in the portfolio and a reduction in yield from 2.01% in the second quarter of fiscal year 2014 to 1.72% for the same period in fiscal year 2015. Interest and dividend income on investments decreased from $14.0 million in the first six months of fiscal year 2014 to $11.6 million for the same period in fiscal year 2015, also a decrease of 17%, driven both by lower average balances in the portfolio and a reduction in yield from 1.97% to 1.74% over the same period.
The weighted average life of the portfolio was 2.9 years and 3.1 years at March 31, 2015 and September 30, 2014, respectively. Average investments represented 16% and 17% of total average interest-earning assets in the second quarter of fiscal years 2015 and 2014, respectively, and 16% and 18% for the first six months of fiscal years 2015 and

2014, respectively. The carrying value of investment securities and FHLB stock was $1.43 billion as of March 31, 2015.

Interest Expense

The following tables present interest expense for the periods ended March 31, 2015 and 2014:

	Three months ended March 31,	
	2015	2014
	(dollars in thousands)	
Interest expense:		
Deposits	$5,984	$6,431
Securities sold under agreements to repurchase	150	143
FHLB advances and other borrowings	893	803
Related party notes payable	227	226
Subordinated debentures and other	325	326
Total interest expense	$7,579	$7,929

	Six months ended March 31,	
	2015	2014
	(dollars in thousands)	
Interest expense:		
Deposits	$11,999	$13,309
Securities sold under agreements to repurchase	296	289
FHLB advances and other borrowings	1,839	1,840
Related party notes payable	459	461
Subordinated debentures and other	655	660
Total interest expense	$15,248	$16,559

Total interest expense consists primarily of interest expense on five components of our balance sheet: deposits, securities sold under agreements to repurchase, FHLB advances and other borrowings, related party notes payable and our outstanding subordinated debentures. Total interest expense decreased to $7.6 million in the second quarter of fiscal year 2015 from $7.9 million for the same quarter in fiscal year 2014, a decrease of 4%, despite an increase in average interest-bearing liabilities from $7.68 billion to $8.11 billion over the same period, driven primarily by lower cost of deposits and lower average cost of FHLB advances. The average cost of total interest-bearing liabilities was 0.38% for the second quarter of fiscal year 2015, compared to 0.42% for the same period in fiscal year 2014. Total interest expense was $15.2 million for the first six months of fiscal year 2015, a decrease of 8% compared to $16.6 million for the same period in fiscal year 2014. The average cost of total interest-bearing liabilities was 0.38% for the first six months of fiscal year 2015, compared to 0.43% for the same period in fiscal year 2014. Significant components of interest expense are described in further detail below.

Deposits. Interest expense on deposits, consisting of checking accounts, MMDAs, NOW accounts, savings accounts and CDs, was $6.0 million in the second quarter of fiscal year 2015 compared with $6.4 million in the second quarter of fiscal year 2014, a decrease of $0.4 million, or 7%. Average deposit balances were $7.30 billion and $7.13 billion, respectively, for the same periods. The average rate declined from 0.37% for the second quarter of fiscal year 2014 to 0.33% for the same period in fiscal year 2015.

Interest expense on deposits was $12.0 million for the first six months of fiscal year 2015, a reduction of $1.3 million, or 10%, compared to the same period in fiscal year 2014. Average deposit balances were $7.31 billion and $7.12 billion, respectively, and the average rate declined from 0.38% to 0.33%, respectively, for the same periods.

Average non-interest-bearing demand account balances comprised 19% of average total deposits for the current quarter, compared with 18% for the comparable quarter. Total average other liquid accounts, consisting of money market and savings accounts, continued to increase to 59% of total average deposits for the current quarter, compared to 55% of total average deposits for the

comparable quarter, while CD accounts represented 22% of average total deposits in the current quarter, compared to 27% in the comparable quarter. These trends in the composition of our deposit portfolio represent a continuation of our strategy over the last three fiscal years to move away from more costly CD accounts toward more cost-effective transaction accounts as well as our focus on gathering business deposits, which are typically transaction accounts by nature. This transition, as well as continued low benchmark interest rates, have driven a significant decrease in our cost of deposits over that time frame.

FHLB Advances and Other Borrowings. Interest expense on FHLB advances and other borrowings was $0.9 million for the second quarter of fiscal year 2015, compared to $0.8 million for the same period in fiscal year 2014, reflecting weighted average cost of 0.69% and 1.26%, respectively. Our average balance for FHLB advances and other borrowings increased to $528.6 million in the current quarter compared to $259.1 million in the comparable quarter. Interest expense on FHLB advances and other borrowings was $1.8 million for the first half of fiscal year 2015 and for the first half of fiscal year 2014, representing a weighted average cost of 0.67% and 1.19%, respectively. The amount of FHLB advances outstanding has increased over the past 12 months to fund a portion of the strong loan growth we have achieved, which has outpaced deposit growth over the same period, despite the fact that we repaid $100 million of FHLB advances in the current quarter. Average FHLB advances and other borrowings as a proportion of total average interest-bearing liabilities were 7% for the current quarter compared to 4% for the comparable quarter. The average rate paid on FHLB advances is impacted by market rates and the various terms and repricing frequency of the specific outstanding borrowings in each year. Our total outstanding FHLB advances were $475.0 million at March 31, 2015 compared to $575.0 million at December 31, 2014 and September 30, 2014. The weighted average contractual rate paid on our FHLB advances was 0.71% at March 31, 2015 and 0.62% at September 30, 2014. The average tenor of our FHLB advances was 47 months and 56 months at March 31, 2015 and September 30, 2014, respectively. The amount of other borrowings and related interest expense as of and for the current quarter were immaterial.

We must collateralize FHLB advances by pledging real estate loans or investments. We pledge more assets than required by our current level of borrowings in order to maintain additional borrowing capacity. Although we may substitute other loans for such pledged loans, we are restricted in our ability to sell or otherwise pledge these loans without substituting collateral or prepaying a portion of the FHLB advances. At March 31, 2015, we had pledged $2.2 billion of loans to the FHLB, against which we had borrowed $475.0 million.

Subordinated Debentures and Other. Interest expense on our outstanding subordinated debentures was $0.3 million in both the current and comparable quarters and $0.7 million in the first six months of both the current and prior fiscal years. At March 31, 2015 and September 30, 2014, the weighted average contractual rate on outstanding subordinated notes was 2.29%.

Securities Sold Under Agreements to Repurchase; Related Party Notes Payable. Securities sold under agreements to repurchase represent retail repurchase agreements with customers and, together, with our related party notes payable, represent a small portion of our overall funding profile. The interest expense associated with these two classes of liabilities remained largely consistent between the current quarter and comparable quarter.

Rate and Volume Variances

Net interest income is affected by changes in both volume and interest rates. Volume changes are caused by increases or decreases during the year in the level of average interest-earning assets and average interest-bearing liabilities. Rate changes result from increases or decreases in the yields earned on assets or the rates paid on liabilities.

The following tables present the current and comparable quarter and the first six months of the current and prior fiscal year and a summary of the changes in interest income and interest expense resulting from changes in the volume of average asset and liability balances and changes in the average yields or rates compared with the preceding fiscal year. If significant, the change in interest income or interest expense due to both volume and rate has been prorated between the volume and the rate variances based on the dollar amount of each variance. The table illustrates the continued benefit of balance sheet growth, mainly within loans funded by cost-effective deposit growth, partially offset by a reduction in net interest margin most pronounced in loan yield.

	Current Quarter vs Comparable Quarter		
	Volume	Rate	Total
	(dollars in thousands)		
Increase (decrease) in interest income:			
Cash and due from banks	$45	$(2)	$43
Investment securities	(228)	(960)	(1,188)
Loans, other than acquired with deteriorated credit quality	7,357	(3,605)	3,752
Loans, acquired with deteriorated credit quality	(415)	1,607	1,192
Loans	6,942	(1,998)	4,944
Total increase (decrease)	6,759	(2,960)	3,799
Increase (decrease) in interest expense:			
NOW, MMDA & savings deposits	295	653	948
CDs	(716)	(679)	(1,395)
Securities sold under agreements to repurchase	(8)	15	7
FHLB advances and other borrowings	571	(481)	90
Related party notes payable	—	1	1
Subordinated debentures and other	—	(1)	(1)
Total increase (decrease)	142	(492)	(350)
Increase (decrease) in net interest income (FTE)	$6,617	$(2,468)	$4,149

	Current 6 month period vs Comparable 6 month period		
	Volume	Rate	Total
	(dollars in thousands)		
Increase (decrease) in interest income:			
Cash and due from banks	$208	$(65)	$143
Investment securities	(876)	(1,544)	(2,420)
Loans, other than acquired with deteriorated credit quality	13,464	(7,382)	6,082
Loans, acquired with deteriorated credit quality	(1,048)	3,323	2,275
Loans	12,416	(4,059)	8,357
Total increase (decrease)	11,748	(5,668)	6,080
Increase (decrease) in interest expense:			
NOW, MMDA & savings deposits	449	903	1,352
CDs	(1,356)	(1,307)	(2,663)
Securities sold under agreements to repurchase	(36)	43	7
FHLB advances and other borrowings	1,012	(1,013)	(1)
Related party notes payable	—	(1)	(1)
Subordinated debentures and other	—	(5)	(5)
Total increase (decrease)	69	(1,380)	(1,311)
Increase (decrease) in net interest income (FTE)	$11,679	$(4,288)	$7,391

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Provision for Loan Losses

We recognized provision for loan losses of $9.7 million for the second quarter of fiscal year 2015 compared to a release of provision for loan losses of $2.7 million for the comparable period in fiscal year 2014, an increase of $12.4 million between the two periods. This change was driven by an increase in a specific allowance required for a small number of primarily C&I loan exposures that deteriorated during the quarter, and to a lesser extent, an increase in loan growth and the effect on the allowance of recording higher net charge-offs during the current quarter compared to recent quarters. Provision for loan losses was $13.0 million for the first six months of fiscal year 2015 compared to a release of provision for loan losses of $3.6 million for the same period in fiscal year 2014, an increase of $16.6 million. The table below outlines the components of provision for loan losses in each period presented. All loans acquired with deteriorated credit quality for which we recognized improvements or impairments in the periods presented are covered by FDIC loss-sharing arrangements. We did not record any meaningful provision for loans covered by FDIC loss-sharing arrangements related to loans other than loans acquired with deteriorated credit quality in any of the periods presented.

(Dollars in thousands)	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Provision for loan losses, core *	$9,970	$(500)	$13,609	$(1,625)
Provision for loan losses, loans acquired with deteriorated credit quality	(291)	(2,190)	(611)	(1,940)
Provision for loan losses, total	$9,679	$(2,690)	$12,998	$(3,565)

* As presented above, the core loan portfolio includes originated loans, other than loans for which we have elected the fair value option, and loans we acquired that we did not determine were acquired with deteriorated credit quality.

Total Credit-Related Charges

In addition to the higher provision for loan losses we incurred during the current fiscal quarter compared to the same quarter in fiscal year 2014, we recognized other credit-related charges during the quarter, as discussed elsewhere within this quarterly report. We believe that the following table, which summarizes each component of the total credit-related charges incurred during the current, prior and comparable quarters, is helpful to understanding the overall impact on our quarterly results of operations. Net OREO charges include OREO operating costs, valuation adjustments and gain (loss) on sale of OREO properties, each of which entered OREO as a result of the former borrower failing to perform on a loan obligation. Reversal of interest income on nonaccrual loans occurs when we become aware that a loan, for which we had been recognizing interest income, will no longer be able to perform according to the terms and conditions of the loan agreement, including repayment of interest owed to us. Loan fair value adjustments related to credit relate to the portion of our loan portfolio for which we have elected the Fair Value Option; these amounts reflect expected credit losses in the portfolio.

(Dollars in thousands)		For the three months ended:		
Item	Included within F/S Line Item(s):	March 31, 2015	December 31, 2014	March 31, 2014
Provision for loan losses	Provision for loan losses	$9,679	$3,319	$(2,690)
Net OREO charges	1) Net (gain) loss from sale of repossessed property and other assets 2) Other noninterest expense	2,634	1,846	1,219
Reversal of interest income on nonaccrual loans	Interest income on loans	517	(162)	6
		1,184	2,223	(683)

Loan fair value adjustment related to credit	Net increase (decrease) in fair value of loans at fair value				
Total		$14,014	$7,226	$(2,148	)

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Noninterest Income

The following table presents noninterest income for the periods ended March 31, 2015 and 2014:

	Three months ended March 31,	
	2015	2014
	(dollars in thousands)	
Non-interest income:		
Service charges and other fees	$8,871	$9,370
Net gain on sale of loans	1,580	947
Casualty insurance commissions	233	298
Investment center income	654	589
Net gain on sale of securities	—	6
Trust department income	938	1,000
Other	1,150	1,636
Subtotal, product and service fees	13,426	13,846
Net increase (decrease) in fair value of loans at fair value	15,208	8,730
Net realized and unrealized gain (loss) on derivatives	(21,698)	(12,436)
Subtotal, loans at fair value and related derivatives	(6,490)	(3,706)
Total noninterest income	$6,936	$10,140

	Six months ended March 31,	
	2015	2014
	(dollars in thousands)	
Non-interest income:		
Service charges and other fees	$19,269	$20,032
Net gain on sale of loans	3,124	2,563
Casualty insurance commissions	549	556
Investment center income	1,227	1,180
Net gain on sale of securities	51	6
Trust department income	2,006	1,905
Other	2,605	2,703
Subtotal, product and service fees	28,831	28,945
Net increase (decrease) in fair value of loans at fair value	32,308	(380)
Net realized and unrealized gain (loss) on derivatives	(46,303)	(7,599)
Subtotal, loans at fair value and related derivatives	(13,995)	(7,979)
Total noninterest income	$14,836	$20,966

Our noninterest income is comprised of the various fees we charge our customers for products and services we provide and the impact of changes in fair value of loans for which we have elected the fair value treatment and realized and unrealized gains (losses) on the related interest rate swaps we utilize to manage interest rate risk on these loans. While we are required under US GAAP to present both components within total noninterest income, we believe it is helpful to analyze the two broader components of noninterest income separately to better understand the underlying performance of the business.

Noninterest income was $6.9 million for the second quarter of fiscal year 2015, compared to $10.1 million for the comparable period in fiscal year 2014, a decrease of 32%, and $14.8 million for the first six months of fiscal year 2015, compared to $21.0 million for the same period in fiscal year 2014, a decrease of 29%.

Product and Service Fees. We recognized $13.4 million of noninterest income related to product and service fees in the second quarter of fiscal year 2015, a decrease of $0.4 million, or 3%, compared to the same period in fiscal year 2014. Net gain on sale of loans, which represents the fees we earn originating and selling home mortgages into the secondary market, increased $0.6 million between the two periods, while service charges and other fees (primarily deposit account OD and NSF fees) and other noninterest income each declined by $0.5 million. The impact in other noninterest income primarily represents a decrease in the portion of recoveries related to loans we acquired in a charged-off status we are entitled to retain.

Noninterest income related to product and services fees was $28.8 million for the first six months of fiscal year 2015 compared to $28.9 million for the same period in fiscal year 2014. Net gain on sale of loans increased $0.6 million, driven by higher mortgage origination volumes, while service charges and other fees decreased by $0.8 million. We believe the decrease in deposit account service charges and fees is representative of changing customer behavior and a shift in mix toward more business deposit accounts, which typically carry higher average balances but incur fewer fees on a relative basis.

Loans at fair value and related derivatives. As discussed in "—Analysis of Financial Condition—Derivatives," changes in the fair value of loans for which we have elected the fair value treatment and realized and unrealized gains and losses on the related derivatives are recognized within noninterest income. For the second quarter of fiscal year 2015, these items accounted for $(6.5) million of noninterest income compared to $(3.7) million for the same period in fiscal year 2014. The change was driven by a $1.9 million difference in the changes in fair value of the loans related to credit risk and a $0.9 million increase in the realized loss on the derivatives driven primarily by volume growth. For the first six months of fiscal year 2015, these items accounted for $(14.0) million of noninterest income compared to $(8.0) million for the same period of fiscal year 2014. The change was driven by a $4.1 million difference in the changes in fair value of the loans related to credit risk and a $1.9 million increase in the realized loss on the derivatives driven primarily by volume growth. We believe that the current realized loss on the derivatives economically offsets the interest income earned on the related loans; we present elsewhere the adjusted net interest income and adjusted net interest margin reflecting the metrics we use to manage the business.

Noninterest Expense

The following table presents noninterest expense for the periods ended March 31, 2015 and 2014:

	Three months ended March 31,	
	2015	2014
	(dollars in thousands)	
Noninterest expense:		
Salaries and employee benefits	$24,673	$23,029
Occupancy expenses, net	3,984	4,486
Data processing	4,708	4,723
Equipment expenses	925	995
Advertising	946	1,088
Communication expenses	1,225	1,242
Professional fees	3,603	3,105
Net gain from sale of repossessed property and other assets	(16)	(278)
Amortization of core deposits and other intangibles	2,313	4,691
Other	6,077	6,246
Total noninterest expense	$48,438	$49,327

	Six months ended March 31,	
	2015	2014
	(dollars in thousands)	
Noninterest expense:		
Salaries and employee benefits	$48,761	$47,050
Occupancy expenses, net	8,008	8,719
Data processing	9,536	9,751
Equipment expenses	1,881	2,022
Advertising	1,674	2,172
Communication expenses	2,398	2,356
Professional fees	7,175	6,003
Net gain from sale of repossessed property and other assets	(384)	(849)
Amortization of core deposits and other intangibles	4,626	9,379
Other	11,854	11,023
Total noninterest expense	$95,529	$97,626

Our noninterest expense consists primarily of salaries and employee benefits, net occupancy expenses, data processing, professional fees and amortization of core deposits and other intangibles. Noninterest expense was $48.4 million in the second quarter of fiscal year 2015 compared to $49.3 million for the same period in fiscal year 2014, a decrease of 2% or $0.9 million. Adjusted for the amortization of intangible assets, our tangible noninterest expenses were $46.1 million in the second quarter of fiscal year 2015, a 3% increase over the same period in fiscal year 2014. Our efficiency ratio was 51.7% for the current quarter and 50.6% for the comparable quarter. Noninterest expense was $95.5 million in the first six months of fiscal year 2015 compared to $97.6 million for the same period in fiscal year 2014, a decrease of 2% or $2.1 million. Adjusted for the amortization of intangible assets, our tangible noninterest expenses were $90.9 million in the first six months of fiscal year 2015, a 3% increase over the same period in fiscal year 2014. Our efficiency ratio was 50.1% and 49.0%, respectively, for the same periods. For more information on our tangible noninterest expense and efficiency ratio, including a reconciliation of each to the most directly comparable GAAP financial measures, see "—Non-GAAP Financial Measures" below.

The quarterly increase in tangible noninterest expenses compared to the second quarter of fiscal year 2014 was primarily driven by a $1.6 million increase in salaries and employee benefits, primarily related to favorable nonrecurring events in the comparable period, and a $0.5 million increase in professional fees, including audit and insurance costs related to being a public company which we expect to continue going forward, partially offset by a $0.5 million decrease in net occupancy costs driven by cost savings generated by branch closures completed in previous fiscal years. On a fiscal year-to-date basis, the increase in tangible noninterest expense was also driven by higher salaries and employee benefits and professional fees, partially offset by lower occupancy costs and advertising. Although not included in tangible noninterest expense, amortization of core deposits and other intangibles also decreased substantially between the two periods, driven entirely by lower scheduled amortization as these assets continue to be amortized.

Provision for Income Taxes

The provision for income taxes varies due to the amount of taxable income, the level and effectiveness of tax-advantaged assets and tax credit funds and the rates charged by federal and state authorities. The provision for income taxes of $9.7 million for the second quarter of fiscal year 2015 represents an effective tax rate of 33.0%, compared to provision of $14.5 million or an effective tax rate of 35.8% for the comparable period. The provision for income taxes of $23.4 million for the first six months of fiscal year 2015 represents an effective tax rate of 33.5% compared to an effective tax rate of 35.0% for the same period in fiscal year 2014. In each case, the decrease in rate is primarily due to a larger amount of tax exempt interest and the mix of state and local taxes we recognized. We have historically calculated our provision for income taxes as though we were a standalone company and we do not expect any material changes in our provisioning for income taxes as a result of our initial public offering.

Return on Assets and Equity

The table below presents our return on average total assets, return on average common equity, average common equity to average assets ratio and net income per average common share at and for the dates presented:

	At and for the three months ended March 31,			
	2015		2014	
Return on average total assets	0.83	%	1.15	%
Return on average common equity	5.49	%	7.41	%
Average common equity to average assets ratio	15.10	%	15.52	%
Net income per average common share[(1)]	$0.34		$0.45	

[(1)] Net income per average common share for the three months ended March 31, 2014 is calculated using the 57,886,114 shares outstanding after the stock split we effected on October 17, 2014 for purposes of comparability. We have calculated that the amount of share dilution during the current quarter was marginal and, as such, diluted EPS equals EPS for all periods presented.

	At and for the six months ended March 31,			
	2015		2014	
Return on average total assets	0.96	%	1.19	%
Return on average common equity	6.44	%	7.70	%
Average common equity to average assets ratio	14.97	%	15.45	%
Net income per average common share[(1)]	$0.80		$0.94	

[(1)] Net income per average common share for the six months ended March 31, 2014 is calculated using the 57,886,114 shares outstanding after the stock split we effected on October 17, 2014 for purposes of comparability. We have calculated that the amount of share dilution during the current quarter was marginal and, as such, diluted EPS equals EPS for all periods presented.

Analysis of Financial Condition

The following table highlights certain key financial and performance information as of the dates indicated:

	As of	
	March 31, 2015	September 30, 2014
	(dollars in thousands)	
Balance Sheet and Other Information:		
Total assets	$9,781,645	$9,371,429
Loans[1]	7,072,465	6,787,467
Allowance for loan losses	(52,426)	(47,518)
Deposits	7,487,698	7,052,180
Stockholders' equity	1,469,552	1,421,090
Tangible common equity[2]	$762,142	$709,054
Tier 1 capital ratio	11.6%	11.8%
Total capital ratio	12.6%	12.9%
Tier 1 leverage ratio	9.3%	9.1%
Tangible common equity / tangible assets[2]	8.4%	8.2%
Nonperforming loans / total loans	1.05%	1.16%
Net charge-offs / average total loans[3]	0.23%	0.14%
Allowance for loan losses / total loans	0.74%	0.70%

(1) Loans include unpaid principal balance net of unamortized discount on acquired loans and unearned net deferred fees and costs and loans in process.

(2) This is a non-GAAP financial measure we believe is helpful to interpreting our financial results. For more information on this non-GAAP financial measure, including a reconciliation to the most directly comparable GAAP financial measure, see "—Non-GAAP Financial Measures" below.

(3) Annualized for partial-year periods

Loan Portfolio

The following table presents our loan portfolio by category at each of the dates indicated:

	March 31, 2015	September 30, 2014
	(dollars in thousands)	
Unpaid principal balance:		
Commercial non-real estate[1]		
Loans, other than loans acquired with deteriorated credit quality	$1,650,445	$1,562,540
Loans acquired with deteriorated credit quality	7,411	9,100
Total	1,657,856	1,571,640
Agriculture[1]		
Loans, other than loans acquired with deteriorated credit quality	1,748,366	1,681,209
Loans acquired with deteriorated credit quality	—	—
Total	1,748,366	1,681,209
Commercial real estate[1]		
Loans, other than loans acquired with deteriorated credit quality	2,632,361	2,476,935
Loans acquired with deteriorated credit quality	40,894	64,259
Total	2,673,255	2,541,194
Residential real estate		
Loans, other than loans acquired with deteriorated credit quality	803,250	789,386
Loans acquired with deteriorated credit quality	101,864	112,219
Total	905,114	901,605
Consumer		
Loans, other than loans acquired with deteriorated credit quality	78,570	88,163
Loans acquired with deteriorated credit quality	1,466	1,923
Total	80,036	90,086
Other lending		
Loans, other than loans acquired with deteriorated credit quality	35,433	34,243
Loans acquired with deteriorated credit quality	—	—
Total	35,433	34,243
Total loans, other than loans acquired with deteriorated credit quality	6,948,425	6,632,476
Total loans acquired with deteriorated credit quality	151,635	187,501
Total unpaid principal balance	7,100,060	6,819,977
Less: Unamortized discount on acquired loans	(21,774)	(25,638)
Less: Unearned net deferred fees and costs and loans in process	(5,821)	(6,872)
Total loans	7,072,465	6,787,467
Allowance for loan losses	(52,426)	(47,518)
Loans, net	$7,020,039	$6,739,949

[1] Unpaid principal balance for commercial non-real estate, agriculture and commercial real estate loans includes fair value adjustments associated with long-term fixed-rate loans where we have entered into interest rate swaps to hedge our interest rate risk.

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During the second quarter of fiscal year 2015, total loans grew by 1.2%, or $85.7 million. The growth was primarily focused in the CRE,C&I, and agriculture segments of the portfolio. Over the same time period, residential real estate, consumer and other loan balances remained generally stable.
The following table presents an analysis of the unpaid principal balance of our loan portfolio at March 31, 2015, by borrower and collateral type and by each of the four major geographic areas we use to manage our markets.

	March 31, 2015						
	Nebraska	Iowa / Kansas / Missouri	South Dakota	Arizona / Colorado	Other[2]	Total	%
	(dollars in thousands)						
Commercial non-real estate[1]	$294,125	$825,978	$278,237	$207,207	$52,309	$1,657,856	23.3 %
Agriculture[1]	177,825	434,750	623,349	500,972	11,470	1,748,366	24.6 %
Commercial real estate[1]	650,636	735,182	687,493	547,332	52,612	2,673,255	37.8 %
Residential real estate	226,465	316,316	169,012	131,764	61,557	905,114	12.7 %
Consumer	23,656	25,927	23,330	5,113	2,010	80,036	1.1 %
Other lending	—	—	—	—	—	35,433	0.5 %
Total	$1,372,707	$2,338,153	$1,781,421	$1,392,388	$179,958	$7,100,060	100 %
% by location	19.3 %	32.9 %	25.1 %	19.6 %	3.1 %	100 %	

[1] Unpaid principal balance for commercial non-real estate, agriculture and commercial real estate loans includes fair value adjustments associated with long-term fixed-rate loans where we have entered into interest rate swaps to hedge our interest rate risk.
[2] Balances in this column represent acquired workout loans and certain other loans managed by our staff, commercial and consumer credit card loans, fair value adjustments related to acquisitions and loans for which we have elected the fair value option, which could result in a negative carrying amount in the event of a net negative fair value adjustment.

The following table presents additional detail regarding our agriculture, CRE and residential real estate loans at March 31, 2015:

	March 31, 2015
	(dollars in thousands)
Commercial non-real estate	$1,657,856
Agriculture real estate	839,368
Agriculture operating loans	908,998
Agriculture	1,748,366
Construction and development	310,011
Owner-occupied CRE	1,110,074
Non-owner-occupied CRE	1,011,274
Multifamily residential real estate	241,896
Commercial real estate	2,673,255
Home equity lines of credit	337,558
Closed-end first lien	444,720
Closed-end junior lien	53,157
Residential construction	69,679
Residential real estate	905,114
Consumer	80,036
Other	35,433
Total unpaid principal balance	$7,100,060

Commercial Non-Real Estate. Commercial non-real estate, or business lending, represents one of our core competencies. We believe that providing a tailored range of integrated products and services, including lending, to small- and medium-enterprise customers is the business at which we excel and through which we can generate favorable returns for our stockholders. We offer a number of different products including working capital and other shorter-term lines of credit, fixed-rate loans over a wide range of terms including our tailored business loans, for which we enter into matching interest rate swaps that give us floating payments for all deals over five years, and variable-rate loans with varying terms.

Agriculture. Agriculture loans include farm operating loans and loans collateralized by farm land. According to the American Bankers Association, at December 31, 2014, we were ranked the seventh-largest farm lender bank in the United States measured by total dollar volume of farm loans, and we take great pride in our knowledge of the agricultural industry across our footprint. We consider agriculture lending one of our core competencies. In 2008, agriculture loans comprised approximately 15% of our overall loan portfolio, compared to 25% as of March 31, 2015. We target a 20% to 30% portfolio composition for agriculture loans according to our risk appetite statement approved by our board of directors. Within our agriculture portfolio, loans are diversified across a wide range of subsectors with the majority of the portfolio concentrated within various types of grain, livestock and dairy products, and across different geographical segments within our footprint.

Commercial Real Estate. CRE includes both owner-occupied CRE and non-owner-occupied CRE and construction and development lending. While CRE lending will remain a significant component of our overall loan portfolio, we are committed to managing our exposure to riskier construction and development deals specifically, and to CRE lending in general, by targeting relationships with relatively low loan-to-value positions, priced to reflect the amount of risk we accept as the lender. This focus on rebalancing the portfolio is reflected in the fact that CRE lending comprised nearly 50% of the portfolio at the time of the NAB acquisition in 2008, compared to 38% as of March 31, 2015.

Residential Real Estate. Residential real estate lending reflects 1-to-4-family real estate construction loans, closed-end first-lien mortgages (primarily single-family long-term first mortgages resulting from acquisitions of other banks), closed-end junior-lien mortgages and home equity lines of credit, or HELOCs. Our closed-end first-lien mortgages include a small percentage of single-family first mortgages that we originate and cannot subsequently sell into the secondary market, including jumbo products, adjustable-rate mortgages and rural home mortgages. Conversely, a large percentage of our total single-family first mortgage originations are sold into the secondary market in order to meet our interest rate risk management objectives.

Consumer. Our consumer lending offering comprises a relatively small portion of our total loan portfolio, and predominantly reflects small-balance secured and unsecured products marketed by our retail branches.

Other Lending. Other lending includes all other loan relationships that do not fit within the categories above, primarily consumer and commercial credit cards and customer deposit account overdrafts.

The following table presents the maturity distribution of our loan portfolio as of March 31, 2015. The maturity dates were determined based on the contractual maturity date of the loan:

	1 Year or Less	>1 Through 5 Years	>5 Years	Total
	(dollars in thousands)			
Maturity distribution:				
Commercial non-real estate	$688,205	$473,996	$495,655	$1,657,856
Agriculture	776,020	644,767	327,579	1,748,366
Commercial real estate	378,913	1,163,203	1,131,139	2,673,255
Residential real estate	117,968	401,967	385,179	905,114
Consumer	15,847	48,474	15,715	80,036
Other lending	35,433	—	—	35,433
Total	$2,012,386	$2,732,407	$2,355,267	$7,100,060

The following table presents the distribution, as of March 31, 2015, of our loans that were due after one year between fixed and variable interest rates:

	Fixed	Variable	Total
	(dollars in thousands)		
Maturity distribution:			
Commercial non-real estate	$628,413	$341,238	$969,651
Agriculture	746,895	225,451	972,346
Commercial real estate	1,158,396	1,135,946	2,294,342
Residential real estate	211,766	575,380	787,146
Consumer	56,990	7,199	64,189
Total	$2,802,460	$2,285,214	$5,087,674

OREO

In the normal course of business, we obtain title to parcels of real estate and other assets when borrowers are unable to meet their contractual obligations and we initiate foreclosure proceedings, or via deed in lieu of foreclosure actions. OREO assets are considered nonperforming assets. When we obtain title to an asset, we evaluate how best to maintain and protect our interest in the property and seek to liquidate the assets at an acceptable price in a timely manner. Our total OREO carrying value was $43.6 million as of March 31, 2015, a decrease of $0.1 million and $6.0 million compared to December 31, 2014 and September 30, 2014, respectively. The amount of OREO covered by FDIC loss-sharing arrangements was $8.6 million as of March 31, 2015 and $10.6 million as of September 30, 2014. The following table presents our OREO balances for the period indicated:

	Three Months Ended March 31, 2015
	(dollars in thousands)
Beginning balance	$43,442
Additions to OREO	5,545
Valuation adjustments and other	(3,185)
Sales	(2,237)
Ending balance	$43,565

	Six Months Ended March 31, 2015
	(dollars in thousands)
Beginning balance	$49,580
Additions to OREO	6,914
Valuation adjustments and other	(5,295)
Sales	(7,634)
Ending balance	$43,565

Investments

The following table presents the amortized cost of each category of our investment portfolio at the dates indicated:

	March 31, 2015	September 30, 2014
	(dollars in thousands)	
U.S. Treasury securities	$271,753	$222,868
U.S. Agency securities	74,345	—
Mortgage-backed securities:		
Government National Mortgage Association	945,299	1,113,363
Federal National Mortgage Association	48,495	—
Small Business Assistance Program	51,086	—
States and political subdivision securities	2,107	2,188
Corporate debt securities	4,996	11,732
Other	1,006	1,006
	$1,399,087	$1,351,157

We have historically invested excess deposits in high-quality, liquid investment securities including residential agency mortgage-backed securities and, to a lesser extent, U.S. Treasury securities, corporate debt securities and securities issued by U.S. states and political subdivisions. Our investment portfolio serves as a means to collateralize FHLB borrowings and public funds deposits, to earn net spread income on excess deposits and to maintain liquidity and balance interest rate risk. Dating to the beginning of fiscal year 2011, the portfolio composition was heavily weighted toward Government National Mortgage Association ("GNMA") residential agency mortgage-backed securities to fit the risk appetite and financial return targets of NAB; however, we rebalanced approximately $100 million of the portfolio into non-GNMA mortgage-backed securities in the second quarter of fiscal year 2015 to balance our interest rate risk exposures. U.S. Treasury securities comprised 20% of the total market value of the portfolio as of March 31, 2015. Since September 30, 2014, the carrying value of the portfolio has increased by $61.3 million, or 4.5%.

The following tables present the aggregate amortized cost of each investment category of the investment portfolio and the weighted average yield for each investment category for each maturity period at March 31, 2015. Maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or prepaid without any penalties. The weighted-average yield on these assets is presented below based on the contractual rate, as opposed to a tax equivalent yield concept.

	March 31, 2015													
	Due in one year or less		Due after one year through five years		Due after five years through ten years		Due after ten years		Mortgage-backed securities		Securities without contractual maturities		Total	
	Amount	Weighted average return	Amount	Weighted average return	Amount	Weighted average return	Amount	Weighted average return	Amount	Weighted average return	Amount	Weighted average return	Amount	Weighted average return
	(dollars in thousands)													
U.S. Treasury securities	$—	— %	$271,753	1.39%	$—	— %	$—	— %	$—	— %	$—	— %	$271,753	1.39%
Mortgage-backed securities	74,346	1.78%	—	— %	—	— %	—	— %	1,044,880	1.76%	—	— %	1,119,226	1.76%
States and political subdivision securities	1,817	5.18%	290	3.46%	0	— %	—	— %	—	— %	—	— %	2,107	4.94%
Corporate debt securities	—	— %	—	— %	4,996	1.78%	—	— %	—	— %	—	— %	4,996	1.78%
Other	—	— %	—	— %	—	— %	—	— %	—	— %	1,006	— %	1,006	— %

Total	$76,163	1.86%	$272,043	1.40%	$4,996	1.78%	$—	—%	$1,044,880	1.76%	$1,006	—%	$1,399,088	1.69%

Asset Quality

We place an asset on nonaccrual status when any installment of principal or interest is more than 90 days past due (except for loans that are well secured and in the process of collection) or earlier when management determines the ultimate collection of all contractually due principal or interest to be unlikely. Restructured loans for which we grant payment or significant interest rate concessions are placed on nonaccrual status until collectability improves and a satisfactory payment history is established, generally

by the receipt of at least six consecutive payments. Our collection policies related to delinquent and charged-off loans are highly focused on individual relationships, and we believe that these policies are in compliance with all applicable laws and regulations.

The following table presents the dollar amount of nonaccrual loans, OREO, restructured performing loans and accruing loans over 90 days past due, at the end of the dates indicated. Loans covered by FDIC loss-sharing arrangements are generally pooled with other similar loans and are generally accreting purchase discount into income each period. Subject to compliance with the applicable loss-sharing agreement, we are generally indemnified by the FDIC at a rate of 80% for any future credit losses on loans covered by FDIC loss-sharing arrangements through June 4, 2015 for commercial loans and June 4, 2020 for single-family real estate loans.

	March 31, 2015	September 30, 2014
	(dollars in thousands)	
Nonaccrual loans[1]		
Commercial non-real estate		
Loans covered by FDIC loss-sharing arrangements	$1,900	$2,126
Loans not covered by FDIC loss-sharing arrangements	9,015	4,908
Total	10,915	7,034
Agriculture		
Loans covered by FDIC loss-sharing arrangements	—	—
Loans not covered by FDIC loss-sharing arrangements	18,860	11,453
Total	18,860	11,453
Commercial real estate		
Loans covered by FDIC loss-sharing arrangements	15,788	21,995
Loans not covered by FDIC loss-sharing arrangements	10,836	20,767
Total	26,624	42,762
Residential real estate		
Loans covered by FDIC loss-sharing arrangements	10,132	10,839
Loans not covered by FDIC loss-sharing arrangements	7,690	6,671
Total	17,822	17,510
Consumer		
Loans covered by FDIC loss-sharing arrangements	—	—
Loans not covered by FDIC loss-sharing arrangements	111	146
Total	111	146
Other lending		
Loans covered by FDIC loss-sharing arrangements	—	—
Loans not covered by FDIC loss-sharing arrangements	—	—
Total	—	—
Total nonaccrual loans covered by FDIC loss-sharing arrangements	27,820	34,960
Total nonaccrual loans not covered by FDIC loss-sharing arrangements	46,512	43,945
Total nonaccrual loans	74,332	78,905
OREO	43,565	49,580
Total nonperforming assets	117,897	128,485
Restructured performing loans	58,122	36,857
Total nonperforming and restructured assets	$176,019	$165,342
Accruing loans 90 days or more past due	$183	$28
Nonperforming restructured loans included in total nonaccrual loans	$15,110	$20,415
Nonaccretable difference outstanding related to loans acquired with deteriorated credit quality	$55,720	$62,606
Percent of total assets		
Nonaccrual loans[1]		
Loans not covered by FDIC loss-sharing arrangements	0.48 %	0.47 %
Total	0.76 %	0.84 %
OREO	0.45 %	0.53 %
Nonperforming assets[2]	1.21 %	1.37 %
Nonperforming and restructured assets[2]	1.78 %	1.76 %

[1] Includes nonperforming restructured loans
[2] Includes nonaccrual loans, which includes nonperforming restructured loans.

At March 31, 2015, our nonperforming assets were 1.21% of total assets, compared to 1.37% at September 30, 2014. Excluding loans covered by FDIC loss-sharing arrangements, we had average nonaccrual loans (calculated as a two-point average) of $45.2 million outstanding during the first six months of fiscal year 2015. Based on the average loan portfolio yield for these loans for the quarter, we estimate that interest income would have been less than $1 million higher during the quarter had these loans been accruing. During the same period, the amount of net interest income that we recorded on these loans was immaterial.

Nonaccrual loans not covered by FDIC loss-sharing arrangements increased by $2.6 million compared to September 30, 2014, and by $7.5 million compared to December 31, 2014. Since September 30, 2014, C&I nonaccrual loans have increased by $4.1 million, driven primarily by deterioration of four specific relationships that triggered the majority of the increased credit-related charges in the current quarter, agriculture nonaccrual loans have increased $7.4 million, primarily driven by the deterioration of three specific relationships, and CRE nonaccrual loans have decreased $9.9 million, primarily driven by the liquidation of one customer's business, which triggered a partial charge-off in the first fiscal quarter.

Nonaccrual loans covered by FDIC loss-sharing arrangements continued to decline and are down $7.1 million since September 30, 2014, and we expect these loans to continue to decline due to the expiration of the commercial loss-sharing arrangement on June 4, 2015 and the natural runoff through payment or foreclosure of the underlying assets.

We consistently monitor all loans internally rated “watch” or worse because that rating indicates we have identified some potential weakness emerging; but loans rated “watch” will not necessarily become problem loans or become impaired. Aside from the loans on the watch list, we do not believe we have any potential problem loans that are not already identified as nonaccrual, past due or restructured as it is our policy to promptly reclassify loans as soon as we become aware of doubts as to the borrowers’ ability to meet repayment terms. We do not have any material interest-bearing assets that would be disclosed as nonperforming loans or restructured performing loans if they were loans.

As noted previously, "watch" rated loans increased 34% between December 31, 2014 and March 31, 2015. During the same time period, "substandard" and "doubtful" loans have also increased. Total past due loans have decreased during that time period. Some of the increase in "watch" loans reflects proactive management of potential credit exposures resulting from a broad-based review of our loan portfolio in conjunction with the credit-related charges described in this quarterly report, while some of the increase is seasonal in nature and representative of normal business cycles. We do not anticipate a significant negative trend in future charge-offs as a result of the increase in "watch" or "substandard" loans.

When we grant concessions to borrowers that we would not otherwise grant if not for the borrowers’ financial difficulties, such as reduced interest rates or extensions of loan periods, we consider these modifications troubled debt restructurings, or TDRs. The table below outlines total TDRs, split between performing and nonperforming loans, at each of the dates indicated:

	March 31, 2015	September 30, 2014
	(dollars in thousands)	
Commercial non-real estate		
Performing TDRs	$10,165	$6,753
Nonperforming TDRs	1,445	1,785
Total	11,610	8,538
Agriculture		
Performing TDRs	2,159	3,780
Nonperforming TDRs	6,377	9,994
Total	8,536	13,774
Commercial real estate		
Performing TDRs	45,160	25,177
Nonperforming TDRs	5,424	6,884
Total	50,584	32,061
Residential real estate		
Performing TDRs	618	1,112
Nonperforming TDRs	1,929	1,730
Total	2,547	2,842
Consumer		
Performing TDRs	20	35
Nonperforming TDRs	13	22
Total	33	57
Total performing TDRs	58,122	36,857
Total nonperforming TDRs	15,188	20,415
Total TDRs	$73,310	$57,272

We entered into loss-sharing arrangements with the FDIC related to certain assets (loans and OREO) acquired from TierOne Bank on June 4, 2010. We are generally indemnified by the FDIC at a rate of 80% for any future credit losses through June 4, 2015 for commercial loans and OREO and June 4, 2020 for single-family real estate loans and OREO. The table below presents nonaccrual loans, TDRs, and OREO covered by loss-sharing arrangements; a rollforward of the allowance for loan losses for loans covered by loss-sharing arrangements; a rollforward of allowance for loan losses for only those loans purchased with deteriorated credit quality covered by loss-sharing arrangements; and a rollforward of OREO covered by loss-sharing arrangements at and for the periods presented.

	At and for the six months ended March 31, 2015 (dollars in thousands)	At and for the fiscal year ended September 30, 2014
Assets covered by FDIC loss-sharing arrangements		
Nonaccrual loans[1]	$27,820	$34,960
TDRs	3,252	5,293
OREO	8,575	10,628
Allowance for loan losses, loans covered by FDIC loss-sharing arrangements		
Balance at beginning of period	$5,108	$7,246
Additional impairment recorded	119	2,364
Recoupment of previously-recorded impairment	(899)	(4,482)
Charge-offs	—	(20)
Recoveries	—	—
Balance at end of period	$4,328	$5,108
OREO covered by FDIC loss-sharing arrangement		
Balance at beginning of period	$10,628	$24,412
Additions to OREO	1,635	1,785
Valuation adjustments and other	(1,031)	(3,750)
Sales	(2,657)	(11,819)
Balance at end of period	$8,575	$10,628

[1] Includes nonperforming restructured loans.

Allowance for Loan Losses

We establish an allowance for the inherent risk of probable losses within our loan portfolio. The allowance for loan losses is management’s best estimate of probable credit losses that are incurred in the loan portfolio. We determine the allowance for loan losses based on an ongoing evaluation, driven primarily by monitoring changes in loan risk grades, delinquencies and other credit risk indicators, which is an inherently subjective process. We consider the uncertainty related to certain industry sectors and the extent of credit exposure to specific borrowers within the portfolio. In addition, we consider concentration risks associated with the various loan portfolios and current economic conditions that might impact the portfolio. All of these estimates are susceptible to significant change. Changes to the allowance for loan losses are made by charges to the provision for loan losses. Loans deemed to be uncollectible are charged off against the allowance for loan losses. Recoveries of amounts previously charged-off are credited to the allowance for loan losses.

Our allowance for loan losses consists of two components. For non-impaired loans, we calculate a weighted average ratio of 12-, 36- and 60-month historical realized losses by collateral type; adjust as necessary for our interpretation of current economic conditions and current portfolio trends including credit quality, concentrations, aging of the portfolio and/or significant policy and underwriting changes not entirely covered by the calculated historical loss rates; and apply the loss rates to outstanding loan balances in each collateral category. We calculate the weighted average ratio of 12-, 36- and 60-month historical realized losses for each collateral type by dividing the average net annual charge-offs by the average outstanding loans of such type subject to the calculation for each of the 12-, 36- and 60-month periods, then averaging those three results. For impaired loans, we estimate our exposure for each individual relationship, given the current payment status of the loan, the present value of expected payments and the value of the underlying collateral as supported by third party appraisals, broker’s price opinions, and/or the borrower’s audited financial statements, each adjusted for liquidation costs. Any shortfall between the liquidation value of the underlying collateral and the recorded investment value of the loan is considered the required specific reserve amount. Actual losses in any period may exceed allowance amounts. We evaluate and adjust our allowance for loan losses, and the

allocation of the allowance between loan categories, each month.

The following table presents an analysis of our allowance for loan losses, including provisions for loan losses, charge-offs and recoveries, for the periods indicated:

	At and for the six months ended March 31, 2015		At and for the fiscal year ended September 30, 2014	
	(dollars in thousands)			
Allowance for loan losses:				
Balance at beginning of period	$47,518		$55,864	
Provision charged to expense	13,800		4,456	
Impairment of loans acquired with deteriorated credit quality	(802	)	(3,772	)
Charge-offs:				
Commercial non-real estate	(8,524	)	(5,380	)
Agriculture	(27	)	(2,429	)
Commercial real estate	(1,652	)	(3,199	)
Residential real estate	(120	)	(631	)
Consumer	(57	)	(211	)
Other lending	(831	)	(1,893	)
Total charge-offs	(11,211	)	(13,743	)
Recoveries:				
Commercial non-real estate	2,182		1,439	
Agriculture	79		58	
Commercial real estate	41		1,470	
Residential real estate	115		233	
Consumer	48		156	
Other lending	656		1,357	
Total recoveries	3,121		4,713	
Net loan (charge-offs) recoveries	(8,090	)	(9,030	)
Balance at end of period	$52,426		$47,518	
Average total loans for the period[1]	$6,868,819		$6,556,818	
Total loans at period end[1]	$7,072,465		$6,787,467	
Ratios				
Net charge-offs to average total loans[2]	0.23	%	0.14	%
Allowance for loan losses to:				
Total loans	0.74	%	0.70	%
Nonaccruing loans[3]	112.72	%	108.13	%

[1] Loans include unpaid principal balance net of unamortized discount on acquired loans and unearned net deferred fees and costs and loans in process.
[2] Annualized for partial-year periods
[3] Nonaccruing loans excludes loans covered by FDIC loss-sharing arrangements.

In the first six months of fiscal year 2015, we recorded net charge-offs of $8.1 million, representing 0.23% of average total loans on an annualized basis, a 9 basis point increase compared to 0.14% for fiscal year 2014. The charge-offs we recorded during the first six months were primarily related to a small number of loans in the C&I portfolio.

At March 31, 2015, the allowance for loan losses was 0.74% of our total loan portfolio, a 4 basis point increase compared with 0.70% at September 30, 2014. The provision recorded during the quarter was predominantly driven by a small number of C&I relationships that deteriorated during the quarter.
Additionally, certain of our loans which are carried at fair value, totaling $1.06 billion and $985 million at March 31, 2015 and September 30, 2014, respectively, have no associated allowance for loan losses, but rather have a fair value adjustment related to credit risk, which is reflected in noninterest income, thus driving the overall ratio of allowance for loan losses to total loans lower. The amount of fair value adjustment related to credit risk on these loans was $5.5 million and $6.0 million at March 31, 2015 and September 30, 2014, respectively.
The following tables present management's historical allocation of the allowance for loan losses by loan category, in both dollars and percentage of our total allowance for loan losses, to specific loans in those categories at the dates indicated:

	March 31, 2015	September 30, 2014
	(dollars in thousands)	
Allocation of allowance for loan losses:		
Commercial non-real estate	$15,957	$10,550
Agriculture	12,222	10,655
Commercial real estate	15,736	16,884
Residential real estate	7,495	8,342
Consumer	189	264
Other lending	827	823
Total	$52,426	$47,518

	March 31, 2015		September 30, 2014	
Allocation of allowance for loan losses:				
Commercial non-real estate	30.4	%	22.2	%
Agriculture	23.3	%	22.4	%
Commercial real estate	30.0	%	35.5	%
Residential real estate	14.3	%	17.6	%
Consumer	0.4	%	0.6	%
Other lending	1.6	%	1.7	%

Management will continue to evaluate the loan portfolio and assess economic conditions in order to determine future allowance levels and the amount of loan loss provisions. We review the appropriateness of our allowance for loan losses on a monthly basis. Management monitors closely all past due and restructured loans in assessing the appropriateness of its allowance for loan losses. In addition, we follow procedures for reviewing and grading all substantial commercial and agriculture relationships at least annually. Based predominantly upon the review and grading process, we determine the appropriate level of the allowance in response to our assessment of the probable risk of loss inherent in our loan portfolio. Management will make additional loan loss provisions when the results of its problem loan assessment methodology or overall allowance appropriateness test indicate additional provisions are required.
The review of problem loans is an ongoing process during which management may determine that additional charge-offs are required or additional loans should be placed on nonaccrual status. We recorded provision for loan losses of $9.7 million during the second quarter of fiscal year 2015. We have also recorded an allowance for unfunded lending-related commitments that represents our estimate of incurred losses on the portion of lending commitments that borrowers have not advanced. The balance of the allowance for unfunded lending-related commitments was $0.4 million at March 31, 2015 and September 30, 2014.

Deposits

We obtain funds from depositors by offering consumer and business demand deposit accounts, MMDAs, NOW accounts, savings accounts and term CDs. At March 31, 2015 and September 30, 2014, our total deposits were $7.49 billion and $7.05 billion, respectively, an increase of 6.1%. Our accounts are federally insured by the FDIC up to the legal maximum. We advertise in newspapers, on the Internet and on television and radio to attract deposits and perform limited direct telephone solicitation of potential institutional depositors such as investment managers, public depositors and pension plans. We have significantly shifted the composition of our deposit portfolio away from CDs toward demand, NOW, MMDA and savings accounts over the last 27 months. This has dramatically reduced our overall cost of deposit funding, in addition to the fact that we have greatly increased adherence to internally published rate offerings for various types of deposit account offerings. The following table presents the balances and weighted average cost of our deposit portfolio at the following dates:

	March 31, 2015		September 30, 2014	
	Amount	Weighted Avg. Cost	Amount	Weighted Avg. Cost
	(dollars in thousands)			
Non-interest-bearing demand	$1,374,589	— %	$1,303,015	— %
NOW accounts, money market and savings	4,587,655	0.29 %	4,005,471	0.24 %
Time certificates, $100,000 or more	631,958	0.84 %	733,376	0.98 %
Other time certificates	893,496	0.64 %	1,010,318	0.82 %
Total	$7,487,698	0.32 %	$7,052,180	0.36 %

Municipal public deposits constituted $1.05 billion and $1.00 billion of our deposit portfolio at March 31, 2015, and September 30, 2014, respectively, of which $764 million and $760 million, respectively, were required to be collateralized. Our top 10 depositors were responsible for 10% and 9% of our total deposits at March 31, 2015 and September 30, 2014, respectively.

The following table presents deposits by region:

	March 31, 2015	September 30, 2104
	(dollars in thousands)	
Nebraska	$2,431,567	$2,366,196
Iowa / Kansas / Missouri	2,333,988	2,096,212
South Dakota	1,481,484	1,431,737
Arizona / Colorado	1,239,353	1,105,535
Corporate and other	1,306	52,500
Total deposits	$7,487,698	$7,052,180

We fund a portion of our assets with CDs that have balances of $100,000 or more and that have maturities generally in excess of six months. At March 31, 2015 and September 30, 2014, our CDs of $100,000 or more totaled $632 million and $733 million, respectively. The following table presents the maturities of our CDs of $100,000 or more and less than $100,000 in size at March 31, 2015:

	Greater than or equal to $100,000	Less than $100,000
	(dollars in thousands)	
Remaining maturity:		
Three months or less	$152,816	$177,041
Over three through six months	110,453	159,603
Over six through twelve months	158,754	267,397
Over twelve months	209,935	289,455
Total	$631,958	$893,496
Percent of total deposits	8.4 %	11.9 %

At March 31, 2015 and September 30, 2014, the average remaining maturity of all CDs was approximately 13 months. The average CD amount per account was approximately $27,569 and $28,581 at March 31, 2015 and September 30, 2014, respectively.

Derivatives

In the normal course of business, we enter into fixed-rate loans having original maturities of 5 years or greater (typically between 5 and 15 years) with certain of our commercial and agribusiness banking customers to assist them in facilitating their risk management strategies. We mitigate our interest rate risk associated with these loans by entering into equal and offsetting fixed-to-floating interest rate swap agreements for these loans with NAB London Branch. We have elected to account for the loans at fair value under ASC 825 Fair Value Option. Changes in the fair value of these loans are recorded in earnings as a component of noninterest income in the relevant period. The related interest rate swaps are recognized as either assets or liabilities in our financial statements and any gains or losses on these swaps, both realized and unrealized, are recorded in earnings as a component of noninterest income. The economic hedges are fully effective from an interest rate risk perspective, as gains and losses on our swaps are directly offset by changes in fair value of the hedged loans (i.e., swap interest rate risk adjustments are directly offset by associated loan interest rate risk adjustments). Consequently, any changes in noninterest income associated with changes in fair value resulting from interest rate movement, as opposed to changes in credit quality, on the loans are directly offset by equal and opposite unrealized charges to or reductions in noninterest income for the related interest rate swap. Any changes in the fair value of the loans related to credit quality and the current realized gain (loss) on derivatives are not offsetting amounts within noninterest income. To ensure the correlation of movements in fair value between the interest rate swap and the related loan, we pass on all economic costs associated with our hedging activity resulting from loan customer prepayments (partial or full) to the customer.

Short-Term Borrowings

Our primary sources of short-term borrowings include securities sold under repurchase agreements and certain FHLB advances maturing within 12 months. The following table presents certain information with respect to only our borrowings with original maturities less than 12 months at and for the periods noted:

	At and for the six months ended March 31, 2015	At and for the fiscal year ended September 30, 2014
	(dollars in thousands)	
Short-term borrowings:		
Securities sold under agreements to repurchase	$160,390	$157,979
Related party notes payable	5,500	5,500
Other short-term borrowings	19	94
Total short-term borrowings	$165,909	$163,573
Maximum amount outstanding at any month-end during the period	$218,278	$264,345
Average amount outstanding during the period	$187,838	$205,483
Weighted average rate for the period	0.33%	0.42%
Weighted average rate as of date indicated	0.34%	0.37%

Great Western also has a $10 million revolving line of credit issued by NAB that is due on demand. Amounts outstanding under the line of credit bear interest at a rate equal to the London inter-bank offered rate, or LIBOR, for three-month U.S. dollar deposits plus 125 basis points, with interest payable quarterly. The interest rate is recalculated every quarter and was 1.52% at March 31, 2015. There were outstanding advances of $5.5 million on this line of credit at each of March 31, 2015 and September 30, 2014. We incurred an immaterial amount of interest expense related to this facility during the quarter.

Other Borrowings

Great Western has outstanding $56.1 million of junior subordinated debentures to affiliated trusts in connection with the issuance of trust preferred securities by such trusts as of March 31, 2015 and September 30, 2014. We are permitted under applicable laws and regulations to count these trust preferred securities as part of our Tier 1 capital. Great Western also has outstanding a subordinated capital note issued to NAB New York Branch having an aggregate principal amount of approximately $35.8 million maturing in June 2018. Interest on the note is payable quarterly and accrues at a rate equal to LIBOR for three-month U.S. dollar deposits plus 205 basis points. The interest rate on the note is recalculated every quarter and was 2.32% at March 31, 2015. We incurred $0.2 million in interest expense on the outstanding note during the quarter. Subject to receipt of regulatory approval, we may prepay the note at any time, in whole but not in part, without penalty.

Off-Balance Sheet Commitments, Commitments, Guarantees and Contractual Obligations

The following table summarizes the maturity of our contractual obligations and other commitments to make future payments at March 31, 2015. Customer deposit obligations categorized as “not determined” include noninterest-bearing demand accounts, NOW accounts, MMDAs and passbook accounts.

	Less Than 1 Year	1 to 2 Years	2 to 5 Years	>5 Years	Not Determined	Total
	(dollars in thousands)					
Contractual Obligations:						
Customer deposits	$1,026,064	$263,948	$216,390	$19,052	$5,962,244	$7,487,698
Securities sold under agreement to repurchase	—	2,871	—	—	160,472	163,343
FHLB advances and other borrowings	95,019	60,000	125,000	195,000	—	475,019
Related party notes payable	5,500	—	35,795	—	—	41,295
Subordinated debentures[(1)]	—	—	—	56,083	—	56,083
Accrued interest payable	4,469	—	—	—	—	4,469
Interest on FHLB advances	3,002	1,975	4,651	3,557	—	13,185
Interest on related party notes payable[(1)]	818	818	1,022	—	—	2,658
Other Commitments:						
Commitments to extend credit—non-credit card	$1,172,840	$147,602	$277,671	$131,703	$—	$1,729,816
Commitments to extend credit—credit card	176,241	—	—	—	—	176,241
Letters of credit	53,314	—	—	—	—	53,314

(1) The outstanding balance of our $10 million line of credit with NAB New York Branch and our subordinated debentures can be prepaid at any time without penalty; therefore, no future interest payments, other than those already accrued, are reflected.

Instruments with Off-Balance Sheet Risk

In the normal course of business, we enter into various transactions that are not included in our consolidated financial statements in accordance with GAAP. These transactions include commitments to extend credit to our customers and letters of credit. Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the commitment. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Letters of credit are conditional commitments issued primarily to support or guarantee the performance of a customer's obligations to a third party. The credit risk involved in issuing letters of credit is essentially the same as originating a loan to the customer. We manage the risks associated with these arrangements by evaluating each customer's creditworthiness prior to issuance through a process similar to that used by us in deciding whether to extend credit to the customer.

The following table presents the total notional amounts of all commitments by us to extend credit and letters of credit as of the dates indicated:

	March 31, 2015	September 30, 2014
	(dollars in thousands)	
Commitments to extend credit	$1,906,057	$1,939,544
Letters of credit	53,314	54,381
Total	$1,959,371	$1,993,925

Liquidity

Liquidity refers to our ability to maintain cash flow that is adequate to fund operations and meet present and future financial obligations through either the sale or maturity of existing assets or by obtaining additional funding through liability management. We consider the effective and prudent management of liquidity to be fundamental to our health and strength. Our objective is to manage our cash flow and liquidity reserves so that they are adequate to fund our obligations and other commitments on a timely basis and at a reasonable cost.

Our liquidity risk is managed through a comprehensive framework of policies and limits overseen by our bank's asset and liability committee. We continuously monitor and make adjustments to our liquidity position by adjusting the balance between sources and uses of funds as we deem appropriate. Our primary measures of liquidity include monthly cash flow analyses under ordinary business activities and conditions and under situations simulating a severe run on our bank. We also monitor our bank's deposit to loan ratio to ensure high quality funding is available to support our strategic lending growth objectives, and have internal management targets for the FDIC's liquidity ratio, net short-term non-core funding dependence ratio and non-core liabilities to total assets ratio. The results of these measures and analyses are incorporated into our contingency funding plan, which provides the basis for the identification of our liquidity needs.

Great Western. Great Western's primary source of liquidity is cash obtained from dividends by our bank. We primarily use our cash for the payment of dividends, when and if declared by our board of directors, and the payment of interest on our outstanding junior subordinated debentures and related party notes payable. We also use cash, as necessary, to satisfy the needs of our bank through equity contributions and for acquisitions. At March 31, 2015, Great Western had $12.8 million of cash. During the second quarter of fiscal year 2015, we declared and paid a dividend of $0.12 per share. The outstanding amounts under our revolving line of credit with NAB and subordinated capital note issued to NAB New York Branch together totaled $41.3 million at March 31, 2015. Our management believes that the sources of available liquidity are adequate to meet all reasonably foreseeable short-term and intermediate-term demands.

Great Western Bank. Our bank maintains sufficient liquidity by maintaining minimum levels of excess cash reserves (measured on a daily basis), a sufficient amount of unencumbered, highly liquid assets and access to contingent funding with the FHLB. At March 31, 2015, our bank had cash of $358.4 million and $1.4 billion of highly-liquid securities held in our investment portfolio, of which $1.05 billion were pledged as collateral on public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law. The balance could be sold to meet liquidity requirements. Our bank also had $475.0 million in FHLB borrowings at March 31, 2015, with additional available lines of $796 million. Our bank primarily uses liquidity to meet loan requests and commitments (including commitments under letters of credit), to accommodate outflows in deposits and to take advantage of interest rate market opportunities. At March 31, 2015, we had a total of $1.96 billion of outstanding exposure under commitments to extend credit and issued letters of credit. Our management believes that the sources of available liquidity are adequate to meet all our bank's reasonably foreseeable short-term and intermediate-term demands.

Capital

As a bank holding company, we must comply with the capital requirements established by the Federal Reserve, and our bank must comply with the capital requirements established by the FDIC. The current risk-based guidelines applicable to us and our bank are based on the Basel III framework, as implemented by the federal bank regulators.

The following table presents our regulatory capital ratios at March 31, 2015 and the standards for both well-capitalized depository institutions and minimum capital requirements. Our capital ratios exceeded applicable regulatory requirements.

	Actual		Minimum Capital Requirement Ratio	Well Capitalized Ratio
	Capital Amount	Ratio		
	(dollars in thousands)			
Great Western Bancorp, Inc.				
Tier 1 capital	$833,982	11.6 %	4.0 %	6.0 %
Total capital	908,385	12.6 %	8.0 %	10.0 %
Tier 1 leverage	833,982	9.3 %	4.0 %	5.0 %
Common equity Tier 1	777,899	10.8 %	4.5 %	6.5 %
Risk-weighted assets	7,187,148			
Great Western Bank				
Tier 1 capital	$853,175	11.9 %	4.0 %	6.0 %
Total capital	906,101	12.6 %	8.0 %	10.0 %
Tier 1 leverage	853,175	9.6 %	4.0 %	5.0 %
Common equity Tier 1	853,175	11.9 %	4.5 %	6.5 %
Risk-weighted assets	7,181,246			

At March 31, 2015 and September 30, 2014, our Tier 1 capital included an aggregate of $56.1 million of trust preferred securities issued by our subsidiaries. At March 31, 2015, our Tier 2 capital included $52.4 million of the allowance for loan losses and $21.5 million of an intercompany subordinated capital note, subject to phase-out and a current haircut of 60%. At September 30, 2014, our Tier 2 capital included $47.5 million of the allowance for loan losses and $21.5 million of an intercompany subordinated capital note, subject to phase-out and a current haircut of 60%. Our total risk-weighted assets were $7.19 billion at March 31, 2015.

In July 2013, the federal bank regulators approved capital rules implementing the Basel III capital framework and various provisions of the Dodd-Frank Act (the "New Capital Rules"). Effective January 1, 2015, we and our bank adopted these rules, subject to the phase-in of certain provisions. In addition to other changes, the New Capital Rules established a new common equity Tier 1 capital ratio.

Non-GAAP Financial Measures

We rely on certain non-GAAP measures in making financial and operational decisions about our business which exclude certain items that we do not consider reflective of our business performance. We believe that each of the non-GAAP measures presented is helpful in highlighting trends in our business, financial condition and results of operations which might not otherwise be apparent when relying solely on our financial results calculated in accordance with U.S. generally accepted accounting principles, or GAAP.

In particular, we evaluate our profitability and performance based on our cash net income and return on average tangible common equity, each of which excludes the effects of amortization expense relating to intangible assets and related tax effects from the acquisition of us by NAB and our acquisitions of other institutions. We believe these measures help highlight trends associated with our financial condition and results of operations by providing net income and return information based on our cash payments and receipts during the applicable period.

We also evaluate our profitability and performance based on our adjusted net interest income, adjusted net interest margin, adjusted interest income on loans other than loans acquired with deteriorated credit quality and adjusted yield on loans other than

loans acquired with deteriorated credit quality. We adjust each of these four measures to include the current realized gain (loss) of derivatives we use to manage interest rate risk on certain of our loans, which we believe economically offsets the interest income earned on the loans. Similarly, we evaluate our operational efficiency based on our efficiency ratio, which excludes the effect of amortization of core deposit and other intangibles (a non-cash expense item) and includes the tax benefit associated with our tax-advantaged loans.
We evaluate our financial condition based on the ratio of our tangible common equity to our tangible assets. Our calculation of this ratio excludes the effect of our goodwill and other intangible assets. We believe this measure is helpful in highlighting the common equity component of our capital and because of its focus by federal bank regulators when reviewing the health and strength of financial institutions in recent years and when considering regulatory approvals for certain actions, including capital actions.
Reconciliations for each of these non-GAAP financial measures to the closest GAAP financial measures are included in the tables below. Each of the non-GAAP measures presented should be considered in context with our GAAP financial results included in this filing.

	At or for the six months ended		At or for the three months ended				
	March 31, 2015	March 31, 2014	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Cash net income and return on average tangible common equity:							
Net income	$46,421	$54,575	$19,724	$26,697	$27,875	$22,503	$25,970
Add: Amortization of intangible assets	4,626	9,379	2,313	2,313	2,768	4,069	4,690
Add: Tax on amortization of intangible assets	(440)	(1,622)	(220)	(220)	(811)	(811)	(811)
Cash net income	$50,607	$62,332	$21,817	$28,790	$29,832	$25,761	$29,849
Average common equity	$1,445,984	$1,421,478	$1,458,131	$1,433,837	$1,439,117	$1,445,813	$1,420,933
Less: Average goodwill and other intangible assets	709,935	721,652	708,782	711,088	713,462	717,104	721,529
Average tangible common equity	$736,049	$699,826	$749,349	$722,749	$725,655	$728,709	$699,404
Return on average common equity	6.44%	7.70%	5.49%	7.39%	7.69%	6.24%	7.41%
Return on average tangible	13.8%	17.9%	11.8%	15.8%	16.3%	14.2%	17.3%

common equity
*

* Calculated as cash net income divided by average tangible common equity. Annual for partial-year periods.

Adjusted net interest income and adjusted net interest margin (fully-tax equivalent basis):							
Net interest income	$163,534	$157,098	$80,625	$82,909	$83,226	$80,100	$76,957
Add: Tax equivalent adjustment	3,094	2,139	1,590	1,504	1,324	1,200	1,107
Net interest income (FTE)	166,628	159,237	82,215	84,413	84,550	81,300	78,064
Add: Current realized derivative gain (loss)	(10,589)	(8,677)	(5,307)	(5,282)	(4,978)	(4,600)	(4,389)
Adjusted net interest income (FTE)	$156,039	$150,560	$76,908	$79,131	$79,572	$76,700	$73,675
Average interest earning assets	$8,558,582	$8,012,542	$8,560,477	$8,556,688	$8,181,194	$8,098,052	$8,001,112
Net interest margin (FTE) *	3.90%	3.99%	3.89%	3.91%	4.10%	4.03%	3.96%
Adjusted net interest margin (FTE) **	3.66%	3.77%	3.64%	3.67%	3.86%	3.80%	3.73%

* Calculated as net interest income (FTE) divided by average interest earning assets. Annualized for partial-year periods.
** Calculated as adjusted net interest income (FTE) divided by average interest earning assets. Annualized for partial-year periods.

	At or for the six months ended		At or for the three months ended				
	March 31, 2015	March 31, 2014	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Adjusted interest income and adjusted yield (fully-tax equivalent basis), on loans other than loans acquired with deteriorated credit quality:							
Interest income	$161,689	$156,562	$80,317	$81,372	$82,968	$79,245	$77,048
Add: Tax equivalent adjustment	3,094	2,139	1,590	1,504	1,324	1,200	1,107
Interest income (FTE)	164,783	158,701	81,907	82,876	84,292	80,445	78,155
Add: Current realized derivative gain (loss)	(10,589)	(8,677)	(5,307)	(5,282)	(4,978)	(4,600)	(4,389)
Adjusted interest income (FTE)	$154,194	$150,024	$76,600	$77,594	$79,314	$75,845	$73,766
Average loans other than loans acquired with deteriorated credit quality	$6,727,508	$6,186,621	$6,828,510	$6,626,507	$6,527,721	$6,362,850	$6,224,179
Yield (FTE) *	4.91%	5.14%	4.86%	4.96%	5.12%	5.07%	5.09%
Adjusted yield (FTE) **	4.60%	4.86%	4.55%	4.65%	4.82%	4.78%	4.81%

* Calculated as interest income (FTE) divided by average loans. Annualized for partial-year periods.
** Calculated as adjusted interest income (FTE) divided by average loans. Annualized for partial-year periods.

Efficiency ratio:							
Total revenue	$178,370	$178,064	$87,561	$90,809	$91,727	$90,414	$87,097
Add: Tax equivalent adjustment	3,094	2,139	1,590	1,504	1,324	1,200	1,107
Total revenue (FTE)	$181,464	$180,203	$89,151	$92,313	$93,051	$91,614	$88,204

Noninterest expense	$95,529	$97,625	$48,438	$47,091	$48,318	$54,279	$49,326
Less:							
Amortization of intangible assets	4,626	9,379	2,313	2,313	2,768	4,069	4,690
Tangible noninterest expense	$90,903	$88,246	$46,125	$44,778	$45,550	$50,210	$44,636
Efficiency ratio *	50.1 %	49.0 %	51.7 %	48.5 %	49.0 %	54.8 %	50.6 %

* Calculated as the ratio of tangible noninterest expense to total revenue (FTE).

Tangible common equity to tangible assets:							
Total stockholders' equity	$1,469,552	$1,437,656	$1,469,552	$1,451,370	$1,421,090	$1,430,964	$1,437,656
Less: Goodwill and other intangible assets	707,410	718,872	707,410	709,723	712,036	714,803	718,872
Tangible common equity	$762,142	$718,784	$762,142	$741,647	$709,054	$716,161	$718,784
Total assets	$9,781,645	$9,274,880	$9,781,645	$9,641,261	$9,371,429	$9,292,283	$9,274,880
Less: Goodwill and other intangible assets	707,410	718,872	707,410	709,723	712,036	714,803	718,872
Tangible assets	$9,074,235	$8,556,008	$9,074,235	$8,931,538	$8,659,393	$8,577,480	$8,556,008
Tangible common equity to tangible assets	8.4 %	8.4 %	8.4 %	8.3 %	8.2 %	8.3 %	8.4 %

Internal Control Over Financial Reporting

Until our initial public offering in October 2014, we were a wholly owned subsidiary of NAB, and our results have been included in NAB’s consolidated financial statements since NAB acquired us in 2008. As a result, we have historically reported our

financial results to NAB under International Financial Reporting Standards ("IFRS"), which were applicable to us as a wholly owned subsidiary of NAB. In accordance with the terms of the Stockholder Agreement we entered into with NAB, we are required to report our financial results to NAB under IFRS until such time as NAB is no longer required under IFRS to account in its financial statements for its holdings in our business under an equity method of accounting (unless our obligation is terminated earlier by NAB). In addition, as regulated financial institutions, we and our bank have also reported our financial results under GAAP for an extended period of time, as required under the financial reporting regulatory regime applicable to financial institutions and their holding companies in the U.S. We are required to report financial results under GAAP to the Federal Reserve, and our bank is also required to report financial results under GAAP to the FDIC and the South Dakota Division of Banking.

As a publicly traded company, we are subject to the financial reporting standards prescribed under GAAP and SEC rules, which are more extensive than the standards applicable to us as a wholly owned subsidiary of NAB prior to our initial public offering. Complying with these heightened financial reporting standards has required us to implement enhancements to the design and operation of our internal control over financial reporting. In the process of preparing additional disclosures required by the SEC for public companies contained within our consolidated financial statements under these requirements in connection with our initial public offering, during the third quarter of fiscal year 2014, we concluded a material weakness existed in the design and operation of our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. The material weakness identified resulted primarily from a lack of sufficient resources and personnel within the accounting function engaged in the preparation and review of our consolidated financial statements and a lack of formal controls and procedures with respect to our internal review of the accuracy and completeness of our application of SEC rules to our consolidated financial statements. The material weakness did not affect our reported net income or stockholders' equity for any financial reporting period or materially affect our reported total assets and total liabilities for any financial reporting period.

Following identification of the material weakness, we implemented a number of controls and procedures designed to improve our control environment. In particular, we included additional members of our accounting and financial reporting staff in the preparation and review of the consolidated financial statements for the year ended September 30, 2014 and the quarters ended March 31, 2015 and December 31, 2014, respectively, and have implemented a more formal preparation and review hierarchy designed to identify and resolve potential errors on a timely basis. We have also contracted with two independent consulting firms to assist us in the preparation of our consolidated financial statements. In addition, within our financial reporting function, we have hired additional personnel with SEC publicly traded company reporting experience to assist with the preparation and review of future financial statements and have allocated a greater number of our employees to assist with these processes. Specifically, in March 2015, we hired additional experienced, qualified personnel within our financial reporting function to assist with the preparation and review of future financial statements.

Although we believe these changes to our control environment will be sufficient to remediate our previously identified material weakness, we believe that further reporting periods are required to confirm the remediation as well as the ongoing effectiveness of the revised control environment. We may be unsuccessful in implementing all remedial measures we may undertake, and these measures may not significantly improve or remediate the material weakness identified in the design and operating effectiveness of our internal control over financial reporting, which, in future periods, could impact our ability to report our financial results accurately or on a timely basis. As a result of the material weakness, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2014.

More generally, if we are unable to meet the demands that have been placed upon us as a public company, including the requirements of Sarbanes-Oxley, we may be unable to accurately report our financial results in future periods, or report them within the timeframes required by law or stock exchange regulations. Failure to comply with Sarbanes-Oxley, when and as applicable, could also potentially subject us to sanctions or investigations by the SEC or other regulatory authorities. Under such circumstances, we may be unable to implement the necessary internal controls in a timely manner, or at all, and future material weaknesses may exist or may be discovered. If we fail to implement the necessary improvements, or if material weaknesses or other deficiencies occur, our ability to accurately

and timely report our financial position could be impaired, which could result in late filings of our annual and quarterly reports under the Exchange Act, restatements of our consolidated financial statements, a decline in our stock price, suspension or delisting of our common stock from the NYSE and could have a material adverse effect on our business, results of operations or financial condition. Even if we are able to report our financial statements accurately and in a timely manner, any failure in our efforts to implement the improvements or disclosure of material weaknesses in our future filings with the SEC could cause our reputation to be harmed and our stock price to decline significantly.

We have not performed an evaluation of our internal control over financial reporting, as contemplated by Section 404 of Sarbanes-Oxley, nor have we engaged our independent registered public accounting firm to perform an audit of our internal control over financial reporting as of any balance sheet date reported in our financial statements. Had we performed such an evaluation or had our independent registered public accounting firm performed an audit of our internal control over financial reporting, additional control deficiencies, including additional material weaknesses and significant deficiencies, may have been identified. In addition, the JOBS Act provides that, so long as we qualify as an “emerging growth company,” we will be exempt from the provisions of Section 404(b) of Sarbanes-Oxley, which would require that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting. We may take advantage of this exemption so long as we qualify as an “emerging growth company.”

Impact of Inflation and Changing Prices

Our financial statements included in this prospectus have been prepared in accordance with GAAP, which requires us to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession generally are not considered. The primary effect of inflation on our operations is reflected in increased operating costs. In our management’s opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond our control, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities.

Recent Accounting Pronouncements

See "Note 2. New Accounting Pronouncements" in the accompanying "Notes to Unaudited Consolidated Financial Statements" included in this report for a discussion of new accounting pronouncements and their expected impact on our financial statements.

Critical Accounting Policies and the Impact of Accounting Estimates

There have been no material changes to our critical accounting policies and accounting estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2015, there have been no material changes in the quantitative and qualitative information about market risk provided pursuant to Item 305 of Regulation S-K as presented in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

Evaluation of Interest Rate Risk

We use a net interest income simulation model to measure and evaluate potential changes in our net interest income. We run various hypothetical interest rate scenarios at least monthly and compare these results against a scenario with no changes in interest rates. Our net interest income simulation model incorporates various assumptions, which we believe are reasonable but which may have a significant impact on results such as: (1) the timing of changes in interest rates, (2) shifts or rotations in the yield curve, (3) re-pricing characteristics for market-rate-sensitive instruments on and off balance sheet, (4) differing sensitivities of financial instruments due to differing underlying rate indices, (5) varying loan prepayment speeds for different interest rate scenarios, (6) the effect of interest rate limitations in our assets, such as floors and caps, (7) the effect of our interest rate swaps, and (8) overall growth and repayment rates and product mix of assets and liabilities. Because of limitations inherent in any approach used to measure interest rate risk, simulation results are not intended as a forecast of the actual effect of a change in market interest rates on our results but rather as a means to better plan and execute appropriate asset-liability management strategies and manage our interest rate risk.

Potential changes to our adjusted net interest income (i.e., GAAP net interest income plus current realized gain or loss on derivatives) in hypothetical rising and declining rate scenarios calculated as of March 31, 2015 are presented in the following table. The projections assume (1) immediate, parallel shifts downward of the yield curve of 100 basis points and immediate, parallel shifts upward of the yield curve of 100, 200, 300 and 400 basis points and (2) gradual shifts downward of 100 basis points over 12 months

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and gradual shifts upward of 100, 200, 300 and 400 basis points over 12 months. In the current interest rate environment, a downward shift of the yield curve of 200, 300 and 400 basis points does not provide us with meaningful results. In a downward parallel shift of the yield curve, interest rates at the short-end of the yield curve are not modeled to decline any further than 0%. For the immediate-shift scenarios, we assume short-term rates follow a forward yield curve throughout the forecast period that is dictated by the instantaneously shocked yield curve from the as of date. In the gradual-shift scenarios, we take each rate across the yield curve from the as of date and shock it by 1/12th of the total change in rates each month for twelve months.

Change in Market Interest Rates as of March 31, 2015	Estimated Increase (Decrease) in Annualized Adjusted Net Interest Income for the Quarter Ended March 31, 2015			
	Twelve Months Ending March 31, 2016		Twelve Months Ending March 31, 2017	
Immediate Shifts				
+400 basis points	16.94	%	9.85	%
+300 basis points	12.84	%	7.61	%
+200 basis points	8.60	%	5.24	%
+100 basis points	4.29	%	2.79	%
-100 basis points	(2.73	)%	(2.66	)%
Gradual Shifts				
+400 basis points	2.21	%		
+300 basis points	1.41	%		
+200 basis points	0.68	%		
+100 basis points	0.12	%		
-100 basis points	0.91	%		

We primarily use interest rate swaps to ensure that long-term fixed-rate loans are effectively re-priced as short-term rates change, which we believe would allow us to achieve these results. The results of this simulation analysis are hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. For example, if the timing and magnitude of interest rate changes differ from those projected, our net interest income might vary significantly. Non-parallel yield curve shifts such as a flattening or steepening of the yield curve or changes in interest rate spreads, would also cause our net interest income to be different from that depicted. An increasing interest rate environment could reduce projected net interest income if deposits and other short-term liabilities re-price faster than expected or faster than our assets re-price. Actual results could differ from those projected if we grow assets and liabilities faster or slower than estimated, if we experience a net outflow of deposit liabilities or if our mix of assets and liabilities otherwise changes. Actual results could also differ from those projected if we experience substantially different repayment speeds in our loan portfolio than those assumed in the simulation model. Finally, these simulation results do not contemplate all the actions that we may undertake in response to potential or actual changes in interest rates, such as changes to our loan, investment, deposit, funding or hedging strategies.

For more information on our adjusted net interest income, including a reconciliation to the most directly comparable GAAP financial measures, see "—Non-GAAP Financial Measures" above.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures, as defined in Rule 13a−15(e) promulgated under the Exchange Act, that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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In connection with the filing of this Quarterly Report on Form 10-Q, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2015 due to the material weakness in our internal control over financial reporting described in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Internal Control Over Financial Reporting.”

(b) Changes in Internal Controls over Financial Reporting. This Quarterly Report on Form 10-Q does not include a report on changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter due to a transition period established by the Exchange Act for new reporting companies. Following identification of the material weakness referenced above, we implemented a number of controls and procedures designed to improve our control environment as described in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Internal Control Over Financial Reporting.”

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes in legal proceedings as described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

ITEM 1A. RISK FACTORS

During the quarter, the following additions below were made to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers, including the risk that a borrower may not provide information to us about its business in a timely manner, and/or may present inaccurate or incomplete information to us, and risks relating to the value of collateral. In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans, the inability of our employees to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers and the quality of our loan portfolio, may result in loan defaults, foreclosures and additional charge-offs and may necessitate that we significantly increase our allowance for loan losses, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition or results of operations.

An important feature of our credit risk management system is our use of an internal credit risk rating and control system through which we identify, measure, monitor and mitigate existing and emerging credit risk of our customers. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a customer or credit risk, which may result in our exposure to higher credit risks than indicated by our risk rating and control system.

Some of our tools and metrics for managing credit risk and other risks are based upon our use of observed historical market behavior and assumptions. We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy and calculating regulatory capital levels, as well as estimating the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating such models will be adversely affected due to the inadequacy of that information. Moreover, our models may fail to predict future risk exposures if the information used in the model is incorrect, obsolete or not sufficiently

comparable to actual events as they occur, or if our model assumptions prove incorrect. We seek to incorporate appropriate historical data in our models, but the range of market values and behaviors reflected in any period of historical data is not at all times

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predictive of future developments in any particular period and the period of data we incorporate into our models may turn out to be inappropriate for the future period being modeled. In such case, our ability to manage risk would be limited and our risk exposure and losses could be significantly greater than our models indicated.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Sales of Unregistered Equity Securities

On October 20, 2014, we completed our initial public offering. As part of our formation in preparation for our initial public offering, on July 9, 2014, we issued and sold 100 shares of our common stock to National Americas Holdings LLC, an indirect, wholly owned subsidiary of NAB, for aggregate cash consideration of $100. This transaction was exempt from registration under the Securities Act under section 4(a)(2) thereof. In addition, on October 17, 2014, we effected a 578,861.14-for-1 split of our outstanding common stock.

Purchases of Equity Securities

We did not repurchase any of our common stock during the second quarter of fiscal year 2015.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

INDEX TO EXHIBITS

Number	Description
2.1	Purchase and Assumption Agreement (Whole Bank, All Deposits), dated as of June 4, 2010, among Federal Deposit Insurance Corporation, Receiver of TierOne Bank, Lincoln, Nebraska, Federal Deposit Insurance Corporation and Great Western Bank (incorporated by reference to Exhibit 2.1 to the Registration Statement on Form S-1 filed by Great Western Bancorp, Inc. on August 28, 2014 (File No. 333-198458))
2.2	Agreement and Plan of Merger, dated October 8, 2014, of Great Western Bancorp, Inc. and Great Western Bancorporation, Inc.
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2014 filed by Great Western Bancorp, Inc. on December 12, 2014)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 filed by Great Western Bancorp, Inc. on August 28, 2014 (File No. 333-198458))
4.1	First Supplemental Indenture dated October 17, 2014, between Great Western Bancorporation, Inc., Great Western Bancorp, Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2014 filed by Great Western Bancorp, Inc. on December 12, 2014)
4.2	First Supplemental Indenture, dated October 17, 2014, between Great Western Bancorp, Inc. and LaSalle Bank National Association (incorporated by reference to Exhibit 4.5 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2014 filed by Great Western Bancorp, Inc. on December 12, 2014)
4.3	Second Supplemental Indenture, dated October 17, 2014, between Great Western Bancorporation, Inc., Great Western Bancorp, Inc. and The Bank of New York Trust Company, National Association (incorporated by reference to Exhibit 4.9 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2014 filed by Great Western Bancorp, Inc. on December 12, 2014)
4.4	Amended and Restated Credit Agreement, dated October 17, 2014, between Great Western Bancorporation, Inc. and National Australia Bank Limited (incorporated by reference to Exhibit 4.11 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2014 filed by Great Western Bancorp, Inc. on December 12, 2014)
4.5	Assumption of Subordinated Note Due June 3, 2018, dated October 17, 2014, between Great Western Bancorp, Inc. and Great Western Bancorporation, Inc. (incorporated by reference to Exhibit 4.13 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2014 filed by Great Western Bancorp, Inc. on December 12, 2014)
10.1	Stockholder Agreement, dated October 20, 2014, between National Australia Bank Limited and Great Western Bancorp, Inc. (incorporated by reference to Exhibit 10.1 to the Annual

	Report on Form 10-K for the fiscal year ended September 30, 2014 filed by Great Western Bancorp, Inc. on December 12, 2014)
10.2	Transitional Services Agreement, dated October 20, 2014, between National Australia Bank Limited and Great Western Bancorp, Inc. (incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2014 filed by Great Western Bancorp, Inc. on December 12, 2014)
10.3	First Amendment to the Transitional Services Agreement, dated November 15, 2014, between National Australia Bank Limited and Great Western Bancorp, Inc. (incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2014 filed by Great Western Bancorp, Inc. on December 12, 2014)

10.4	Registration Rights Agreement, dated October 20, 2014, between National Australia Bank Limited, National Americas Holdings LLC and Great Western Bancorp, Inc. (incorporated by reference to Exhibit 10.4 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2014 filed by Great Western Bancorp, Inc. on December 12, 2014)
10.5	Great Western Bancorp, Inc. 2014 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 filed by Great Western Bancorp, Inc. on October 16, 2014 (File No. 333-199426))
10.6	Great Western Bancorp, Inc. 2014 Non-Employee Director Plan (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-8 filed by Great Western Bancorp, Inc. on October 16, 2014 (File No. 333-199426))
10.7	Great Western Bancorp, Inc. Executive Incentive Compensation Plan (incorporated by reference to Exhibit 10.13 to the Annual Report on Form 10-K for the fiscal year ended September 30, 2014 filed by Great Western Bancorp, Inc. on December 12, 2014)
10.8	Form of Great Western Bancorp, Inc. 2014 Omnibus Incentive Compensation Plan Performance Share Unit Award Agreement (incorporated by reference to Exhibit 10.13 to Amendment No. 2 to the Registration Statement on Form S-1 filed by Great Western Bancorp, Inc. on October 3, 2014 (File No. 333-198458))
10.9	Form of Great Western Bancorp, Inc. 2014 Omnibus Incentive Compensation Plan Restricted Share Unit Award Agreement (incorporated by reference to Exhibit 10.14 to Amendment No. 2 to the Registration Statement on Form S-1 filed by Great Western Bancorp, Inc. on October 3, 2014 (File No. 333-198458))
10.10	Form of Great Western Bancorp, Inc. 2014 Non-Employee Director Plan Performance Share Unit Award Agreement (incorporated by reference to Exhibit 10.16 to Amendment No. 3 to the Registration Statement on Form S-1 filed by Great Western Bancorp, Inc. on October 9, 2014 (File No. 333-198458))
10.11	Form of Great Western Bancorp, Inc. 2014 Non-Employee Director Plan Restricted Share Unit Award Agreement (incorporated by reference to Exhibit 10.15 to Amendment No. 2 to the Registration Statement on Form S-1 filed by Great Western Bancorp, Inc. on October 3, 2014 (File No. 333-198458))
11.1	Statement regarding Computation of Per Share Earnings (included as Note 18 to the registrant's unaudited consolidated financial statements)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer of Great Western Bancorp, Inc. in accordance with Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Rule 13a-14(a) Certification of Chief Financial Officer of Great Western Bancorp, Inc. in accordance with Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Section 1350 Certification of Chief Executive Officer of Great Western Bancorp, Inc. in accordance with Section 906 of the Sarbanes-Oxley Act of 2002

32.2	Section 1350 Certification of Chief Financial Officer of Great Western Bancorp, Inc. in accordance with Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Great Western Bancorp, Inc.

By: ______/s/_Peter Chapman_________________
Name: Peter Chapman
Title: Chief Financial Officer and Executive Vice President
(Principal Financial Officer and Authorized Officer)

Date: May 14, 2015