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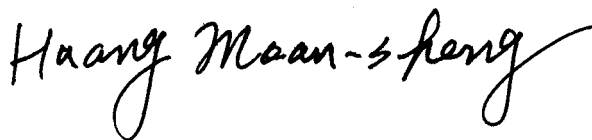


Chen Tsong-min

Chairman

Global economic performance in 2012 was still shadowed by the remnant of the global financial crisis of 2008. Major economies of the world have launched different forms of monetary easing policies with an attempt to stimulate economic recovery. After years of effort, there seems to be a gleam of light for recovery. Yet, the easing policies of major economies also yielded side effects. It is the recession in the Euro Zone and Japan. There was economic growth in the USA, but the size of growth lacked momentum. Economic recovery in the newly emerging markets was not strong and fast enough. Taiwan was also affected by the economic stagnancy worldwide, to the extent that the overall industrial sector lost its competitive power. As such, there was no increase of salary in real terms. It was coupled with the controversy over the remuneration to labor insurance, the military, civil servants and the teachers, and the rise of oil and electricity prices. Clouded by these factors, projected economic growth has been adjusted downward for 9 times to 1.26%. In 2013, Despite the critical factors to the economic performance worldwide are monetary policy, employment, budget deficit, and European debts. They also posed uncertainty to the financial market. Global economic recovery is still not fast enough. According to the economic forecast of the FED, economic growth worldwide will be 2 to 3% while economic growth in Taiwan will be 3%. This is yet to be seen.

Domestic housing prices have been on the rise for years. The corporate sector is also confronting structural adjustment. These intensified the operation risk of the Bank. At the same time, the government also launched a series of new policies in order to vitalize the banks in operation and intensify the control of credit risk, including the upward adjustment of the BIS ratio, debts coverage ratio, and return (loss) on assets. As such, the lending business of the Bank will inevitably be affected. The Bank is a small and medium size bank with a low level of capitalization. The influence from these policies will be obvious. Yet, the Bank seeks to diversify its risk and moves towards the diversification of operation for turning crisis into opportunity.



President



Through the diligent efforts of the management team and all of the Bank's associates, the Bank has made timely adjustments to our business strategy. All business divisions are steadily growing and making profits. The Bank hereby reports its operation results in 2012, summary of business plan in 2013 as follows:

Operating Performance in 2012

1. Domestic and Foreign Economic and Financial Environment

(1) Economic Outlook

Due to the sovereign debt crises in Europe, the feeble economic growth in the US, and the deceleration of economic growth in China, worldwide economic growth rate slowed in 2012.

Impacted by factors ranging from gloomy international economic condition, continued weak export figures, to the price hikes of gasoline and electricity, capital gains tax on securities, and labor insurance annuities at home, domestic consumption has not rebounded in any meaningful way in the first three quarters of 2012. The result was depressed macroeconomic performance. During this period, the Directorate General of Budget, Accounting and Statistics (DGBAS) of Executive Yuan revised the full year economic growth rate projection downward nine times to 1.05%, the lowest of the year. However, in the fourth quarter, as the global economy stabilized and the domestic stock market began to rise, key financial and economic indicators improved, and the increase in consumer price moderated. As a result of these factors, private consumption began to pick up and the export sector grew more than expected. On 2013.2.22, the Directorate General of Budget, Accounting and Statistics (DGBAS) of Executive Yuan released the economic growth rate for the entire year of 2012, which was 1.26% and better than expected.



(2) Financial Situation

The Financial Supervisory Commission approved CNY business at domestic Offshore Banking Units (OBU) and overseas branches. As a result, the financial industry wholeheartedly promoted the OBU business, syndicated loans at overseas branches, and CNY related business. In addition, due to the increase of interest rate spread between deposits and loans, and the careful management of credit risks, many financial institutions showed significant profit growth last year.

2. Transformation of the Bank's Organization

- (1) In Dec. 2012, the Bank relocated Chi Hsien Branch to Gangshan Benjhou Industrial Park and renamed it as Gangshan Benjhou Branch.
- (2) In 2013, the Bank will relocate the Tachang Branch to Taichung and rename it as "Tali Branch" and will approach the goal of emergence into a national bank.
- (3) The Bank makes significant effort to develop the personal and property insurance agency services in supporting the cross-industry operation in banking, insurance, and trust, for organizational synergy.

3. Results of Business Plans and Operating Strategies for FY 2012

Unit: NTD/USD 100 Million, %

Operating Item	FY	2012	2011	Growth Rate (%)
Deposit Business		1,881.47	1,881.49	(0.001)
Loan Business		1,616.49	1,624.83	(0.51)
Foreign Exchange Business (USD)		47.35	44.01	7.59
Guarantee Business		78.05	112.40	(30.56)
Commission & service fees		3.94	4.00	(1.50)

Note 1: The decrease in the size of loans was mainly caused by the reduction of loans to Kaohsiung City Government amounting to NT\$4.308 billion. With the increase in regular loans amounting to NT\$3.474 billion, the size of loans reduced by NT\$834 million or -0.51%.

Note 2: In the area of bank guarantee, an issue of commercial paper in jumbo size in 2011 was mature without renewal.

4. Execution of Business Target:

In 2012, the average deposits balance was NT\$ 188.147 billion, or 94.07% of the deposits target; the average loans balance was NT\$ 161.649 billion, or 95.09% of the loans target; foreign exchange Sales was US\$4.735 billion, or 98.65% of the target; net income before tax was NT\$ 419 million, or 72.90% of the target.

5. Analyses of Financial Revenue, Expenditure and Profitability

The changes in 2012 in budget settlement as compared with the same period of the previous year (2011) are shown below:

Unit : NTD Million,%

Item		2012	2011	Growth Rate (%)
Net interest revenue		2,103	1,988	5.78
Net non-interest revenue		881	330	166.97
Net revenue		2,984	2,318	28.73
Credit loss expenses		(579)	(899)	(35.60) (Note)
Operating expenses		(1,986)	(1,848)	7.47
Income before tax		419	(429)	197.67
Net income		386	(433)	189.15
ROA	Before income tax	0.19	(0.20)	195.00
	After income tax	0.17	(0.20)	185.00
ROE	Before income tax	3.94	(4.30)	191.63
	After income tax	3.63	(4.35)	183.45
Net profit margin on after income tax		12.94	(18.69)	169.23
EPS on before income tax		0.59	(0.71)	183.10
EPS on after income tax		0.55	(0.71)	177.46

Note : This was due to the application of SFAS No. 34 in accounting effective 2011, with the adjustment of recognition of provisions for bad debts.

6. Status of R & D

- (1) The Bank's on-line automatic debit system of Kaohsiung City parking fees included Fengshan and Niensong Districts.
- (2) The Bank Promote "excellent home mortgage project", "home mortgage life insurance loan", and "ATM card and personal finance planning loan".
- (3) Planning for CNY business

Business Plan in 2013

1. Business objectives and Important Operating Policies

- (1) To increase BIS ratio and expand the revenue size: Issues subordinated debts to increase capital adequacy ratio; expand the scope of operation and bolster earnings in order to increase tier 1 capital.
- (2) To increase the write off coverage ratio to strengthen risk tolerance.
 - A. Adjust the asset structure to increase engagement in loan operations that has low risk factor.
 - B. Strengthen quality of credit extension, speed up collection of non-performing loans and be familiar with borrowers to decrease overdue loans.
- (3) To expand the revenue size: expand the revenue size by using an institutional client group and general consumer group as the main axis and promote the deposit and its derived business.
- (4) Continuously increase asset profitability.
 - A. Increase in engagement of small-medium business loans and home mortgage. Decrease MML business, municipal government loans of lower profitability, adjust asset portfolio, improve the quality of assets and increase the profits.



B. Strengthen the promotion of participation in OBU business.

- (5) Increase income of transaction fees: Increase promotion of foreign and domestic funds businesses, and increase trust fees of real estate trust business.
- (6) Plan a variety of new businesses (such as gold passbook, CNY business for DBU) to satisfy customer's needs of "one stop fulfillment of purchase".
- (7) Increase E-banking services items for strengthening competitiveness and increase business volume of foreign exchange.
- (8) Taking into consideration both security and liquidity, strengthen wealth management business and operate steadily to increase benefits of exercising funds.
- (9) To decrease the capital cost and improve the deposit structure.
- (10) Strengthen internal control and risk management framework for prevention and reducing frauds.

2. Expected Business Objective

- (1) Average Deposits Balances: NT\$ 193 billion
- (2) Average Loans Balances: NT\$ 166 billion
- (3) Foreign Exchange Sales: US\$ 5 billion
- (4) Commission and Service Fees: NT\$ 0.406 billion

Development Strategy in Future

1. Medium term goal: Transform our organization, expand operating size and grow to be an excellent bank among domestic banks. Our bank will promote organizational re-engineering, increase operational performances for expanding operating size, causing business and finances to be stronger, and then we will become an excellent bank among domestic banks.
2. Long term goal: We shall become an excellent bank in Asia Pacific through consolidation and expanding our business territory. Through consolidation, we will expand our business territory and capital size while assuring shareholder's rights and to become an excellent bank in Asia Pacific.

The Impact of the external Competitive environment, regulatory environment, and macroeconomic environment

1. External competitive environment

Further deregulation of cross-strait financial transactions made way for 10 Taiwanese banks to establish branches in Mainland China. In addition, domestic financial institutions have already established 11 leasing companies in Mainland China. Besides, a few branches of Taiwanese banks in Mainland China have offered or applied for full-range CNY business. This will help to boost up business in the future. Mutual investment by banks on both sides into the equity shares of each other and the investment of the capital into the stock exchanges of each side is about to be institutionalized. This will contribute to the positive cooperation between banks in Taiwan and Mainland China in the areas of capital, loans, trade financing, and investment, and offers an excellent business opportunity for moving into the market of Mainland China. As such, the Bank will pursue the strategy of in-depth cultivation of local markets and emerge as a "small but perfect" commercial bank.

2. Regulatory environment

- (1) Update (amend) relevant work procedures, tables according to amended or updated "additional articles 1 and 2 of article 12 of the Banking Act of the Republic of China", "Mandatory Provisions of Standard Form Contract for Personal Online Banking Services", "Prohibitory Provisions of Standard Form Contract for Personal Online Banking Services", "Standard Form Contract for Personal Online Banking Services", "Directions Governing Limitations on Types and Amounts of the Securities in which a Commercial Bank May Invest", "The

Capital Adequacy and Capital Category of Banks” and “The Methods for calculating Bank’s regulatory capital and Risk Weighted Assets” announced by Financial Supervisory Commission, while establishing a customer information protection management committee and work group for our bank, for implementing customer information protection items, and estimating the capital adequacy ratio of our bank shall be increased again while planning to apply for the issuance of debts as a response measure.

- (2) Financial Supervisory Commission abolish the “Direction for Banks engage in wealth management business”, “Guidelines for Banks Selling Financial Products to Customers Other than Wealth Management Customers” and “The Self Disciplinary Rules for bank engage in wealth management and financial products selling”, the internal operational procedures of our bank are amended accordingly. Also, The wealth management business added a section of “The management of Financial Consumers Protections” according to article 8 of the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries”.

3. Macroeconomic environment

In 2013, the USA can stay away from her fiscal cliff for a while. The real estate market and the confidence of the consumers will turn positive, and the fundamental aspects of the economy will also be improved, which in turn will affect disposable incomes. The final solution for the fiscal problem is still full of potential uncertainty, which hampered economic recovery. The countries of sovereign debts in Europe still face the pressure of the policy of budget tightening. Unemployment continues. Economic recovery is at bay. Yet, the Central Bank of Europe has made the best of its effort to stabilize the market and save the Euro. With the launch of the stabilization policy in Europe, the tensed financial situation appeared to be eased. In Q4 2012, the industrial production and exports of Mainland China rebounded significantly with economic growth at 7.9%. The urbanization and the launch of the basic construction of railways and highways in 2013, coupled with the proactive development of import substitution and the development of strategic industries in Mainland China, economic growth is projected at 8.0% in 2013 (upward adjustment of 0.2 percentage).

The Central Bank of the Republic of China (Taiwan) continued its policy of no change in interest rate in all four quarters of 2012. Under the pressure of the depreciation of JPY and KWN, NTD is expected to be depreciated to NT\$30 in exchange rate in consideration of the effect on economic growth. This will help to ease the financial situation and boost up economic growth.

The Council of Economic Planning and Development will present the plan for Free Economic Experimental Zone to give rise to economic momentum. Kaohsiung has been included as part of the zone, which will help to accelerate economic growth in Kaohsiung.

In general, economic performance in 2013 is forecast to be promising incrementally quarter by quarter. Yet, there are far too many challenges and uncertainties, which require caution.

The Bank’s Most Recent Credit Rating Result and Date of Rating

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



Chairman



President



2.1 Date of Incorporation: Jan. 13, 1982

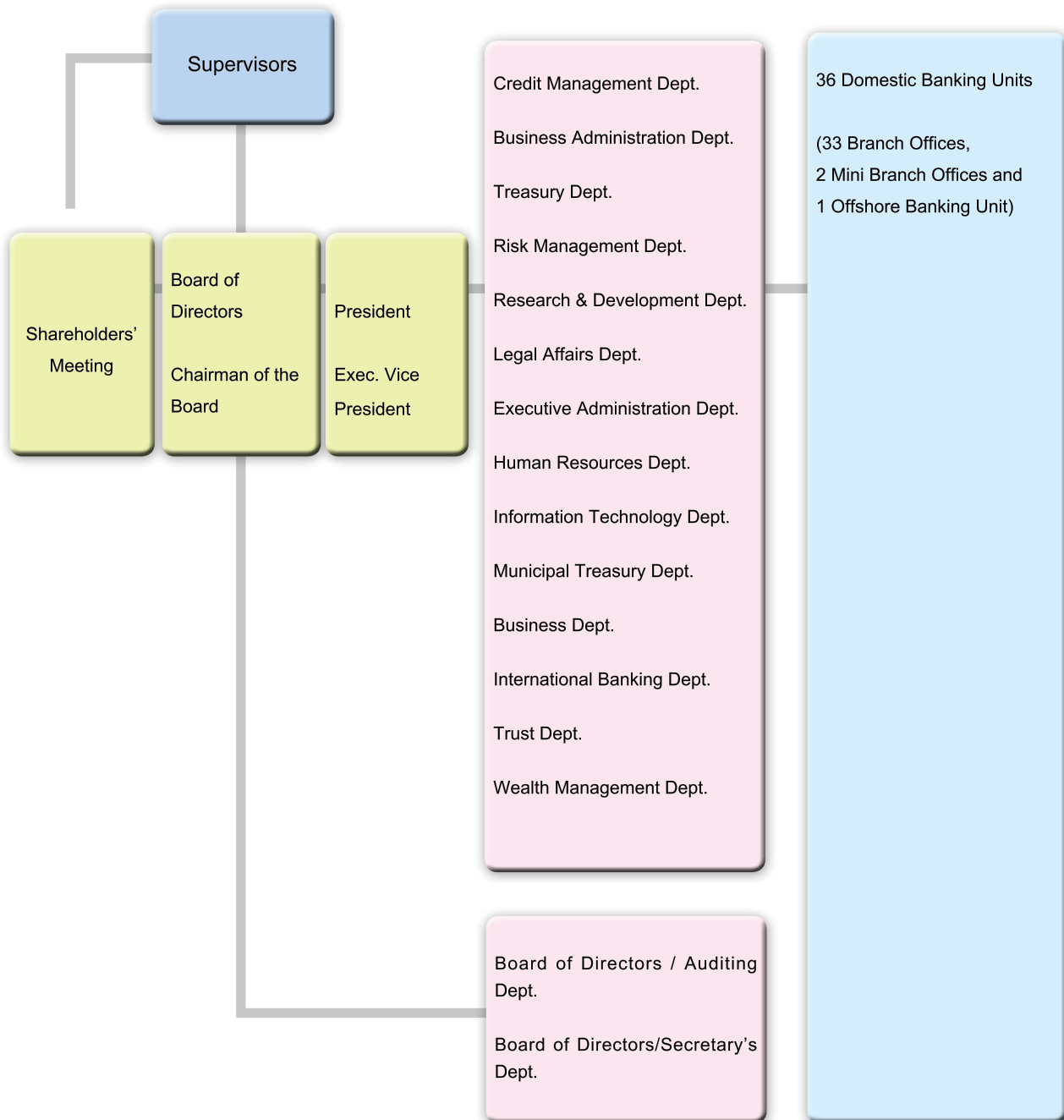
2.2 Company History

Formerly Known as “City Bank of Kaohsiung Co., Ltd.” and called “City Bank of Kaohsiung” for short, the Bank changed the Bank’s name to “Bank of Kaohsiung Co., Ltd.” on Jan. 1, 1994 and hereunder is abbreviated to “Bank of Kaohsiung”(BOK). In the beginning of the Bank’s establishment, the initial paid-in capital was NT\$ 450 million, 99.994% of which was put up by the Kaohsiung City Government. After several capital increases in the past 31 years and the privatization, the total paid-in capital has amounted to NT\$ 7,069,475,790 to Mar. 2013. In the past 31 years, in order to positively improve the operating constitution, strengthen the financial transparency and raise the Bank’s competence, BOK stocks were listed on the TSE on May 18, 1998. The Bank was privatized on Sep. 27, 1999 and was upgraded as a national bank under the approval of the Minister of Finance on May 31, 2001.

The Bank has not proceeded with mergers, reinvestment relative enterprises or reorganization in the latest year and up to Mar. 2013. The Bank is not subject to any specific financial holding companies. The equities of the Bank’s directors and supervisors and persons who must declare their shares pursuant to Article 11 of “Regulations Governing A Same Person or Same Concerned Party Holding the Issued Shares with Voting Rights achieve a Particular Ratio of a bank.” were not transferred or changed voluminously, so the ownership remained unchanged. There was no substantial change of its management model and business lines, nor were material issues that could affect shareholders’ interest and rights.

3.1 Organization

3.1.1 Organization Chart





3.1.2 Major Corporate Functions

Credit Management Dept. :

Planning, promotion, review, credit investigation, management for loans and credit cards, economic studies, and appraisal of collateral and related business guidance and consulting.

Business Administration Dept. :

Management, planning and accounting and statistics for budget and final accounts of the whole business of the Bank except credit, foreign exchange, and trust business; processing of public-benefit lotteries and agent services for other related business.

Treasury Dept. :

Capital management; undertake, purchase & sell of marketable securities underwriting; purchase & sell of government bonds; brokerages, purchase & sell, certification and underwriting of short-term notes; acting as the agent for raising government bonds and handling related repayment; planning and execution of investment; and management of assets and liabilities.

Risk Management Dept. :

Planning and supervision of the Bank's risk control.

Research & Development Dept. :

Synthetic planning, research, development and innovation of operation. Assessment, application for new branches, relocation planning, application for manager's certificates, credit rating, compilation of annual reports.

Legal Affairs Dept. :

Affairs related to justice and non-performing loans. Planning, management and execution of compliance with the systems governed by laws and regulations.

Executive Administration Dept. :

General administration, cash payment and receiving, fixing and maintenance, property, documentation, seals, public relations, bill protection and security of branches, and other affairs irrelevant to financial business which are not managed by any unit of the head office.

Human Resources Dept. :

Planning, assessment, management, business trips and leaves, training, wages, welfare, and retirement pay and pension of human resources and labor-capital relations.

Information Technology Dept. :

Planning, design and operating management of automatization.

Municipal Treasury Dept. :

Design and promotion for business of Municipal and City treasuries. Custody of City-owned securities. Guidance and supervision on branch business.

Business Dept. :

Various types of deposits, loans, foreign exchange, domestic remittance, guarantee, cash payment and receiving, capital management, and other financial service.

International Banking Dept. :

Managing, Planning and promotion of foreign remittance, deposits, loans, guarantee, cash payment and receiving and other foreign exchange business.

Trust Dept. :

Handling trust business approved by the central competent authority with planning, promotion, and execution of subsidiary business.

Wealth Management Dept. :

Programming, promotion and execution of wealth management business, management and appraisal of wealth management personnel, and guidance of the marketing planning and management of banking insurance.

3.2 Directors, Supervisors and Management Team

3.2.1 Directors & Supervisors

A. Information on Directors & Supervisors

2013.4.21

Title	Name	Date Elected	Term (Years)	Date First Elected	Shareholding When Elected (Joint Shareholding in Kaohsiung City Government)		Current Shareholding (Joint Shareholding in Kaohsiung City Government)	
					Shares	%	Shares	%
Chairman	Toong-Min Chen (Representative of Kaohsiung City Government)	2012.11.01	2014.06.15	2012.11.01	320,094,217	45.28	320,094,217	45.28
Independent Director and Managing Director	Wen-Yuan Lin	2011.06.16	2014.06.15	2008.06.19	0	0	0	0
Managing Director	Ruey-Tsang Lee (Representative of Kaohsiung City Government)	2011.06.16	2014.06.15	2011.06.16	242,236,966	46.07	320,094,217	45.28
Managing Director	Li- Ming Hsu (Representative of Kaohsiung City Government)	2011.06.16	2014.06.15	2009.06.18	242,236,966	46.07	320,094,217	45.28
Independent Director	Mei-Yueh Ho	2011.06.16	2014.06.15	2008.06.19	0	0	0	0
Independent Director	Tzen-Ping Su	2011.06.16	2014.06.15	2011.06.16	0	0	0	0
Director	Richard Lee (Representative of Kaohsiung City Government)	2011.06.16	2014.06.15	2011.06.16	242,236,966	46.07	320,094,217	45.28
Director	Yuan- Pei Chou (Representative of Kaohsiung City Government)	2011.06.16	2014.06.15	2008.06.19	242,236,966	46.07	320,094,217	45.28
Director	Jueifang P. Chen (Representative of Kaohsiung City Government)	2011.06.16	2014.06.15	2005.03.15	242,236,966	46.07	320,094,217	45.28
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)	2011.06.16	2014.06.15	2009.06.18	242,236,966	46.07	320,094,217	45.28
Director	Wen-Ching Yang (Representative of Heng Fong Asset Management Co., Ltd.)	2011.06.16	2014.06.15	2011.06.16	100,000	0.02	111,500	0.02
Director	Lai-Chuan Chang (Representative of Kaohsiung City Government)	2012.02.20	2014.06.15	2007.07.06	320,094,217	45.28	320,094,217	45.28
Supervisor	Yung-Yu Tsai (Representative of Jinn Her Enterprise Co., Ltd.)	2011.06.16	2014.06.15	2011.06.16	1,028,000	0.2	23,521,348	3.33
Supervisor	Yu-Hui Su	2011.06.16	2014.06.15	2002.06.20	0	0	0	0
Supervisor	Shan-Hui Chang	2011.06.16	2014.06.15	2008.06.19	0	0	0	0

Note : 1. The names of juridical person shareholders, please refer to page 13 "Major Shareholders of the institutional."

2. Chairman Hsian Chung Tsai was resigned on Sep. 17, 2012, and Toong-Min Chen was appointed to be Chairman on Nov. 1, 2012.
3. Managing Director Chien-Sheng Hao was appointed to be Supervisor by the juridical person shareholder, Kaohsiung City Government, on Mar. 28, 2001~Aug. 1, 2002, and on Jun. 23, 2005~Jun. 18, 2008, and elected as Director on Jun. 19, 2008, and elected as Managing Director on Jun. 18, 2009, and elected as Director on July 16, 2011, and resigned on Jan. 9, 2012.
4. Director Li- Ming Hsu was appointed to be Supervisor by the juridical person shareholder, Kaohsiung City Government, on July 6, 2007~Jun.19, 2008, elected as Director on Jun. 18, 2009, and elected as Managing Director on Sep. 17, 2012.



Corporate Governance Report

Name	Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouse or within tow degree of kinship		
	Shares	%	Shares	%			Title	Name	Relation
Toong-Min Chen (Representative of Kaohsiung City Government)	0	0	0	0	Vice President, landbank	Director, Waterland Securities Co., Ltd.; Supervisor, Taiwan Finance Corporation Co., Ltd.	None	None	None
Wen-Yuan Lin	0	0	0	0	Chairman, China Steel Corporation	Chairman, Taiwan Styrene Monomer Co.; Director, Yangmingshan Tienlai Spring Resort; Director, The Pen Bay International Ltd.; Director, Admiral Overseas Co.	None	None	None
Ruey-Tsang Lee (Representative of Kaohsiung City Government)	0	0	0	0	Director-general of National Property Administration, Ministry of Finance	Director, Finance Bureau Kaohsiung City Government	None	None	None
Li- Ming Hsu (Representative of Kaohsiung City Government)	0	0	0	0	Director-general of Information Department, Kaohsiung City	Director, Research, Development and Evaluation Commission, Kaohsiung City Government	None	None	None
Mei-Yueh Ho	0	0	0	0	The Administrative Committee of the Executive Yuan and Council for Economic Planning And Development	Independent Director, AU Optronics Corporation	None	None	None
Tzen-Ping Su	0	0	0	0	Chairman, Central News Agency, CNA	Chairman, Advance Media Social Enterprise Co.; Director, Mainfarm trading Co.; Director, Chia Tai Enterprise Co. LTD.	None	None	None
Richard Lee (Representative of Kaohsiung City Government)	0	0	0	0	Arbitrator, The Arbitration Association of The Republic of China	Partner Attorney, Yuan Chen Law Office; Supervisor, Hwang Yen Health Preserving business Co. Ltd.; Chairman, Chu Long Bao Industry Co. Ltd.	None	None	None
Yuan- Pei Chou (Representative of Kaohsiung City Government)	0	0	0	0	President, and Secretary General, Kaohsiung BAR Association	Routine Supervisor, Kaohsiung BAR Association	None	None	None
Jueifang P. Chen (Representative of Kaohsiung City Government)	0	0	0	0	MBA, Northern Arizona University	Senior Staff Officer, Bank of Kaohsiung	None	None	None
Chien-Tsai Chao (Representative of Kaohsiung City Government)	0	0	0	0	President, Tang Eng Iron Works co., Ltd.	Director, Chyang Dah Stainless co., Ltd.	None	None	None
Wen-Ching Yang (Representative of Heng Fong Asset Management Co., Ltd.)	0	0	0	0	Vice Chief, Financial Examination Bureau of Financial Supervisory Commission, R.O.C.	Chairman, Heng Fong Investment Advisory Co. Ltd.; Director, Heng Fong Asset Management Co., Ltd.; Director, Chengsin Manages Consultant; Director, Chih Chin Financial Consulting Ltd.; Director, Shaung Tzu Xing International Development Co.	None	None	None
Lai-Chuan Chang (Representative of Kaohsiung City Government)	0	0	0	0	Consultant, Kaohsiung City Government	Director, Yongyang Fire Control Safety Equipment Co., Ltd.; Director, Safety devices limited company of rich fire control forever	None	None	None
Yung-Yu Tsai (Representative of Jinn Her Enterprise Co., Ltd.)	0	0	0	0	President, Jinn Her Enterprise Co., Ltd.	Chairman, Jinn Her Enterprise Co., Ltd.; Director, Modern Plating Asian Pacific; Director, Brighton-Best international (Taiwan) Inc.; Director, Chin Shun Li Industry CO.	None	None	None
Yu-Hui Su	0	0	0	0	Accounting Doctor, Department and Graduate Institute of Business Administration, National Taiwan University	Director, IP Fune Nine Investment Ltd.; Supervisor, Makealot Industrial Co., Ltd.; Supervisor, CPC Corporation, Taiwan; Director, Grand Cathay Venture Capital III Co., Ltd.; Supervisor, Chu Yi Industry Co.	None	None	None
Shan-Hui Chang	0	0	0	0	Chairman, Wetec International CPAS.	Head of EnWise CPAs & Co., Kaohsiung Location; Supervisor, Thinking Electronic Industrial Co., Ltd.; Director, Chemical Industry CO., Ltd.; Supervisor, PANBIOTIC LABORATORIES; Director, Yung Chi Paint & Varnish Mfg. Co., Ltd; Supervisor, Gold is united into a scientific and technological Limited Company of resource	None	None	None

B. Major shareholders of the institutional shareholders

Name of institutional shareholders	Major shareholders of the institutional shareholders
Kaohsiung City Government	None
Heng Fong Asset Management Co., Ltd.	Wen-Ching Yang, Hsing-Chun Kao
Jinn Her Enterprise Co., Ltd.	Tsai Yung Yu, Yung-Chuan Tsai, His-Hui Chen, Hsiung-Tien Tsai

Note : Major shareholders of the major shareholders that are juridical persons : none.

C. Professional qualifications and independence analysis of directors and supervisors

Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	Criteria	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Bank in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, CPA, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Bank	
Toong-Min Chen			✓	0
Wen-Yuan Lin			✓	0
Ruey-Tsang Lee			✓	0
Li- Ming Hsu			✓	0
Mei-Yueh Ho			✓	1
Tzen-Ping Su			✓	0
Richard Lee		✓		0
Yuan- Pei Chou		✓	✓	0
Jueifang P. Chen			✓	0
Chien-Tsai Chao			✓	0
Wen-Ching Yang		✓	✓	0
Lai-Chuan Chang			✓	0
Yung-Yu Tsai			✓	0
Yu-Hui Su	✓	✓	✓	0
Shan-Hui Chang		✓	✓	0



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Name	Independence Criteria (Note)									
	1	2	3	4	5	6	7	8	9	10
Toong-Min Chen			✓	✓	✓	✓	✓	✓	✓	
Wen-Yuan Lin	✓		✓	✓	✓	✓	✓	✓	✓	✓
Ruey-Tsang Lee	✓		✓	✓		✓	✓	✓	✓	
Li- Ming Hsu	✓		✓	✓		✓	✓	✓	✓	
Mei-Yueh Ho	✓		✓	✓	✓	✓	✓	✓	✓	✓
Tzen-Ping Su	✓		✓	✓	✓	✓	✓	✓	✓	✓
Richard Lee	✓		✓	✓	✓	✓	✓	✓	✓	
Yuan-Pei Chou	✓		✓	✓	✓	✓	✓	✓	✓	
Jueifang P. Chen			✓	✓	✓	✓	✓	✓	✓	
Chien-Tsai Chao	✓		✓	✓	✓	✓	✓	✓	✓	
Wen-Ching Yang	✓		✓	✓	✓	✓	✓	✓	✓	
Lai-Chuan Chang	✓		✓	✓	✓	✓	✓	✓	✓	
Yung-Yu Tsai	✓		✓	✓	✓	✓	✓	✓	✓	
Yu-Hui Su	✓		✓	✓	✓	✓	✓	✓	✓	✓
Shan-Hui Chang	✓		✓	✓	✓	✓	✓	✓	✓	✓

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

1. Not an employee of the Bank or any of its affiliates.
2. Not a director or supervisor of the Bank or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Bank, its parent company, or any subsidiary in which the Bank holds, directly or indirectly, more the 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding share of the Bank or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding share of the Bank or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Bank.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Bank or to any affiliate of the Bank, or a spouse thereof. But, exclude the members of the remuneration committee, they exercise Article 7 of "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Bank.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.2 Management Team

2013.4.21

Title	Name	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
			Shares	%	Shares	%	Shares	%
President	Moan-Sheug Huang	2013.01.09	0	0	0	0	0	0
Exec. Vice President	Chun-Ching Ko	2009.09.01	37,000	0.0052	0	0	0	0
Exec. Vice President	Yi-Jong Liou	2009.11.01	20,477	0.0029	0	0	0	0
Chief Auditor	Chung-Chen Lin	2011.01.18	20,376	0.0029	0	0	0	0
Chief Secretary	Tsui-Mei Hsu	2000.08.28	79,289	0.0112	0	0	0	0
Business Management Dept., Vice President and General Manager	Anna Hsu	2012.07.01	14,025	0.0020	0	0	0	0
Risk Management Dept., and Research & Development Dept., Vice President and General Manager	Johnson Huang	2012.09.07	14,229	0.0020	0	0	0	0
Credit Management Dept., Vice President and General Manager	Ting-Lien Lin	2012.07.01	34,825	0.0049	0	0	0	0
Executive Administration Dept., and Human Resources Dept., Vice President and General Manager	Hwa-Jen Lee	2012.07.01	20,118	0.0028	0	0	0	0
Legal Affair Dept., Vice President and General Manager	Te-Chin Chou	2005.02.24	19,052	0.0027	0	0	0	0
Treasury Dept., Vice President and General Manager and OBU, General Manager	J.C. Shou-Jen Chen	2008.04.01	107,448	0.0152	0	0	0	0
Information Technology Dept., Vice President and General Manager	I-Fen Chen	2011.02.24	82,129	0.0116	0	0	0	0
Municipal Treasury Dept., General Manager	Mei-Ling Chen	2012.07.01	45,957	0.0065	0	0	0	0
Business Dept., General Manager	Jin-Ann Wang	2012.07.01	68,731	0.0097	0	0	0	0
International Banking Dept., General Manager	Shuen-Hua Chen	2012.09.07	13,994	0.0020	0	0	0	0
Trust Dept., General Manager	Jung-Tai Chang	2013.03.01	13,805	0.0020	0	0	0	0
Wealth Management Dept., General Manager	Yuan-Chin Shiang	2013.03.01	64,189	0.0091	0	0	0	0
Gangshan Benjhou Branch, General Manager	Ming-Hung Wu	2012.12.17	51,758	0.0073	0	0	0	0
Feng Shan Branch, General Manager	Tung-Chiang Sung	2013.03.01	17,221	0.0024	0	0	0	0
Chien Chin Branch, General Manager	Wen-Hau Sher	2013.03.01	20,727	0.0029	0	0	0	0
San Min Branch, General Manager	Yen-Ching Hsien	2008.04.01	28,778	0.0041	0	0	0	0
Tso Ying Branch, General Manager	Mei-Chu Chang	2012.04.03	31,613	0.0045	0	0	0	0
Hsiao Kang Branch, General Manager	Jin-Biau Tsai	2009.11.01	30,018	0.0042	0	0	0	0



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Title	Name	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
			Shares	%	Shares	%	Shares	%
Tao Yuan Branch, General Manager	Chuan- Pin Kao	2009.10.22	14,170	0.0020	0	0	0	0
Chien Chen Branch, General Manager	Chi-Jen Lin	2008.04.01	34,886	0.0049	1,300	0.0002	0	0
Yu Chang Branch, General Manager	Yi-Chen Yu	2013.03.01	18,625	0.0026	0	0	0	0
Wan Nei Branch, General Manager	Chung-Hui Wang	2013.03.01	20,000	0.0028	0	0	0	0
Pin Tung Branch, General Manager	Shui-Hsing Kuo	2012.09.07	853	0.0001	0	0	0	0
Kwei Lin Branch, General Manager	Shiow-Lien Su	2012.10.31	80,001	0.0113	0	0	0	0
Liu Ho Branch, General Manager	Ju-Chen Lu	2008.04.01	28,887	0.0041	11,150	0.0016	0	0
Nan Tze Branch, General Manager	Wei-Min Wu	2011.10.26	18,394	0.0026	0	0	0	0
Ku Shan Branch, General Manager	Trey-Shin Lee	2012.07.01	44,867	0.0063	921	0.0001	0	0
Chien Kuo Branch, General Manager	Hsien-Kuo Chen	2011.10.26	18,948	0.0027	68,891	0.0097	0	0
Chiu Ju Branch, General Manager	Shiu-Hui Liu	2011.03.07	17,905	0.0025	0	0	0	0
Yen Cheng Mini Branch, General Manager	Huey-Fung Lin	2012.10.31	84,664	0.0120	0	0	0	0
Tsao Ya Branch, General Manager	Ching-Tsan Chen	2011.10.26	19,385	0.0027	18,800	0.0027	0	0
Banciao Branch, General Manager	Te-Ching Wan	2011.10.26	37,960	0.0054	0	0	0	0
Tai Nan Branch, General Manager	Ming-Ta Yang	2011.10.26	13,555	0.0019	0	0	0	0
San To Branch, General Manager	Hueng-Fen Yen	2008.04.01	20,518	0.0029	0	0	0	0
Da Fa Branch, General Manager	Shih-Hung Huang	2013.03.01	0	0	0	0	0	0
Ta Chih Branch, General Manager	Don Huang	2012.09.07	20,240	0.0029	0	0	0	0
Tai Chung Branch, General Manager	Yeh-Shing Wang	2012.09.07	19,287	0.0027	0	0	0	0
Chi Chin Mini Branch, General Manager	Fang-Lan Lin	2012.04.03	13,654	0.0019	0	0	0	0
Nan Kaohsiung Branch, General Manager	Tzu-Dan Yen	2012.09.07	18,297	0.0026	0	0	0	0
Dali Branch, General Manager	Wen-Lueh Su	2013.02.26	20,026	0.0028	0	0	0	0
Hsin Chu Branch, General Manager	Hsien- Chung Liao	2010.03.08	13,565	0.0019	0	0	0	0
Shih Fu Branch, General Manager	Chiu-Chin Huang	2008.04.01	27,965	0.0040	0	0	0	0
Chung Ho Branch, General Manager	Chuck Chen	2012.09.07	21,353	0.0030	0	0	0	0
Taipei Branch, General Manager	Aaron Ting	2012.09.07	18,647	0.0026	0	0	0	0
Min Cheng Branch, General Manager	Li-Hwa Chen	2012.04.03	68,891	0.0097	18,948	0.0027	0	0
Pei Kaohsiung Branch, General Manager	Pi-Jung Ko	2012.07.01	50,289	0.0074	0	0	0	0
Po Ai Branch, General Manager	Wei-Lin Hsu	2012.09.07	0	0	0	0	0	0

Title	Name	Experience (Education)	Other Position	Managers who are Spouses or Within Two Degree of Kinship		
				Title	Name	Relation
President	Moan-Sheug Huang	General Manager and Chief, landbank	None	None	None	None
Exec. Vice President	Chun-Ching Ko	Exec. Vice President, Bank of Kaohsiung	Supervisor, Taiwan Finance Co., Ltd	None	None	None
Exec. Vice President	Yi-Jong Liou	Exec. Vice President, Bank of Kaohsiung	Director, Kaohsiung Bank General Insurance Agency Co., Ltd, and supervisor of Kaohsiung Rapid Transit Corporation.	None	None	None
Chief Auditor	Chung-Chen Lin	Chief Auditor, Bank of Kaohsiung	None	None	None	None
Chief Secretary	Tsui-Mei Hsu	Chief Secretary, Bank of Kaohsiung	None	None	None	None
Business Management Dept., Vice President and General Manager	Anna Hsu	Vice President and General Manager, Bank of Kaohsiung	None	None	None	None
Risk Management Dept., and Research & Development Dept., Vice President and General Manager	Johnson Huang	Vice President and General Manager, Bank of Kaohsiung	None	None	None	None
Credit Management Dept., Vice President and General Manager	Ting-Lien Lin	Vice President and General Manager, Bank of Kaohsiung	Supervisor, Kaohsiung Bank Insurance Agency Co., Ltd. and Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
Executive Administration Dept., and Human Resources Dept., Vice President and General Manager	Hwa-Jen Lee	Vice President and General Manager, Bank of Kaohsiung	None	None	None	None
Legal Affair Dept., Vice President and General Manager	Te-Chin Chou	Vice President and General Manager, Bank of Kaohsiung	Supervisor, Kaohsiung Bank Insurance Agency Co., Ltd. and Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
Treasury Dept., Vice President and General Manager and OBU, General Manager	J.C. Shou-Jen Chen	Vice President and General Manager, Bank of Kaohsiung	None	None	None	None
Information Technology Dept., Vice President and General Manager	I-Fen Chen	Vice President and General Manager, Bank of Kaohsiung	None	None	None	None
Municipal Treasury Dept., General Manager	Mei-Ling Chen	Vice President and General Manager, Bank of Kaohsiung	Director, Kaohsiung Bank Insurance Agency Co., Ltd. and Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
Business Dept., General Manager	Jin-Ann Wang	Vice President and General Manager, Bank of Kaohsiung	Director, Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
International Banking Dept., General Manager	Shuen-Hua Chen	General Manager, Bank of Kaohsiung	None	None	None	None
Trust Dept., General Manager	Jung-Tai Chang	General Manager, Bank of Kaohsiung	None	None	None	None
Wealth Management Dept., General Manager	Yuan-Chin Shiang	General Manager, Bank of Kaohsiung	Director, Kaohsiung Bank Insurance Agency Co., Ltd. & Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
Gangshan Benjhou Branch, General Manager	Ming-Hung Wu	General Manager, Bank of Kaohsiung	None	None	None	None
Feng Shan Branch, General Manager	Tung-Chiang Sung	General Manager, Bank of Kaohsiung	None	None	None	None
Chien Chin Branch, General Manager	Wen-Hau Sher	General Manager, Bank of Kaohsiung	None	None	None	None



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Title	Name	Experience (Education)	Other Position	Managers who are Spouses or Within Two Degree of Kinship		
				Title	Name	Relation
San Min Branch, General Manager	Yen-Ching Hsien	General Manager, Bank of Kaohsiung	None	None	None	None
Tso Ying Branch, General Manager	Mei-Chu Chang	General Manager, Bank of Kaohsiung	None	None	None	None
Hsiao Kang Branch, General Manager	Jin-Biau Tsai	General Manager, Bank of Kaohsiung	None	None	None	None
Tao Yuan Branch, General Manager	Chuan- Pin Kao	General Manager, Bank of Kaohsiung	None	None	None	None
Chien Chen Branch, General Manager	Chi-Jen Lin	General Manager, Bank of Kaohsiung	None	None	None	None
Yu Chang Branch, General Manager	Yi-Chen Yu	General Manager, Bank of Kaohsiung	None	None	None	None
Wan Nei Branch, General Manager	Chung-Hui Wang	General Manager, Bank of Kaohsiung	None	None	None	None
Pin Tung Branch, General Manager	Shui-Hsing Kuo	General Manager, Bank of Kaohsiung	None	None	None	None
Kwei Lin Branch, General Manager	Shiow-Lien Su	General Manager, Bank of Kaohsiung	None	None	None	None
Liu Ho Branch, General Manager	Ju-Chen Lu	General Manager, Bank of Kaohsiung	None	None	None	None
Nan Tze Branch, General Manager	Wei-Min Wu	General Manager, Bank of Kaohsiung	None	None	None	None
Ku Shan Branch, General Manager	Trey-Shin Lee	General Manager, Bank of Kaohsiung	None	None	None	None
Chien Kuo Branch, General Manager	Hsien-Kuo Chen	General Manager, Bank of Kaohsiung	None	General Manager	Li-Hwa Chen	Spouse
Chiu Ju Branch, General Manager	Shiu-Hui Liu	General Manager, Bank of Kaohsiung	None	None	None	None
Yen Cheng Mini Branch, General Manager	Huey-Fung Lin	General Manager, Bank of Kaohsiung	None	None	None	None
Tsao Ya Branch, General Manager	Ching-Tsan Chen	General Manager, Bank of Kaohsiung	None	None	None	None
Banciao Branch, General Manager	Te-Ching Wan	General Manager, Bank of Kaohsiung	None	None	None	None
Tai Nan Branch, General Manager	Ming-Ta Yang	General Manager, Bank of Kaohsiung	None	None	None	None
San To Branch, General Manager	Hueng-Fen Yen	General Manager, Bank of Kaohsiung	None	None	None	None
Da Fa Branch, General Manager	Shih-Hung Huang	General Manager, Bank of Kaohsiung	None	None	None	None
Ta Chih Branch, General Manager	Don Huang	General Manager, Bank of Kaohsiung	None	None	None	None
Tai Chung Branch, General Manager	Yeh-Shing Wang	General Manager, Bank of Kaohsiung	None	None	None	None
Chi Chin Mini Branch, General Manager	Fang-Lan Lin	General Manager, Bank of Kaohsiung	None	None	None	None
Nan Kaohsiung Branch, General Manager	Tzu-Dan Yen	General Manager, Bank of Kaohsiung	None	None	None	None
Dali Branch, General Manager	Wen-Lueh Su	General Manager, Bank of Kaohsiung	None	None	None	None
Hsin Chu Branch, General Manager	Hsien- Chung Liao	General Manager, Bank of Kaohsiung	None	None	None	None
Shih Fu Branch, General Manager	Chiu-Chin Huang	General Manager, Bank of Kaohsiung	None	None	None	None
Chung Ho Branch, General Manager	Chuck Chen	General Manager, Bank of Kaohsiung	None	None	None	None
Taipei Branch, General Manager	Aaron Ting	General Manager, Bank of Kaohsiung	None	None	None	None
Min Cheng Branch, General Manager	Li-Hwa Chen	General Manager, Bank of Kaohsiung	None	General Manager	Hsien- Kuo Chen	Spouse
Pei Kaohsiung Branch, General Manager	Pi-Jung Ko	General Manager, Bank of Kaohsiung	None	None	None	None
Po Ai Branch, General Manager	Wei-Lin Hsu	General Manager, Bank of Kaohsiung	None	None	None	None

3.2.3 Remuneration of Directors, Supervisors, President, and Vice President

A. Remunerations of Directors (Independent Directors)

Unit : NT\$ in 2012.1.1 – 2012.12.31

Title	Name	Remuneration									
		Base Compensation (A)		Severance Pay (B)		Bonus to Directors (C)		Allowances (D)		Ratio of total remuneration (A+B+C+D) to net income (%)	
		BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK	Companies in the financial statements
Chairman	Toong-Min Chen (Representative of Kaohsiung City Government)										
Independent Director and Managing Director	Wen-Yuan Lin										
Managing Director	Ruey-Tsang Lee (Representative of Kaohsiung City Government)										
Managing Director	Li-Ming Hsu (Representative of Kaohsiung City Government)										
Independent Director	Mei-Yueh Ho										
Independent Director	Tzen-Ping Su										
Director	Richard Lee (Representative of Kaohsiung City Government)										
Director	Yuan-Pei Chou (Representative of Kaohsiung City Government)	10,527,125	10,527,125	0	0	2,509,469	2,509,469	979,000	979,000	3.63	3.63
Director	Jueifang P. Chen (Representative of Kaohsiung City Government)										
Director	Lai-Chuan Chang (Representative of Kaohsiung City Government)										
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)										
Director	Wen-Ching Yang (Representative of Heng Fong Asset Management Co., Ltd.)										
Chairman	Hsian Chung Tsai (Representative of Kaohsiung City Government)										
Director	Chien-Sheng Hao (Representative of Kaohsiung City Government)										

- Note :
1. On-balance sheet remuneration, including directors' salary, special responsibility allowance, retirement pension, severance pay, prize and incentives, etc. in 2012.
 2. On-balance sheet remuneration from distribution of earnings, i.e. directors' remuneration to be distributed as approved by the Board of Directors before the shareholders' meeting for proposal of distribution of earnings for 2012.
 3. On-balance sheet expenses for execution of business, i.e. transportation allowance, special allowance, other allowances etc. in 2012. The Bank offers one dormitory for the Chairman of the Board, and the rent in 2012 was NT\$360,000. The Bank offers one vehicle for the Chairman of the Board, and the rent in 2012 was NT\$435,600. The fuel allowances were NT\$78,280 in 2012. One driver was offered, whose remuneration was NT\$978,077 in 2012.
 4. No actual retirement pension was given in 2012.



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Unit : NT\$ in 2012.1.1 – 2012.12.31

Title	Name	Relevant remuneration received by directors who are also employees									
		Salary, Bonuses and Allowances (E)		Severance Pay (F)		Profit Sharing-Employee Bonus (G)				Exercisable Employee Stock Options (H)	
		BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK		Companies in the financial statements		BOK	Companies in the financial statements
						Cash	Stock	Cash	Stock		
Chairman	Toong-Min Chen (Representative of Kaohsiung City Government)										
Independent Director and Managing Director	Wen-Yuan Lin										
Managing Director	Ruey-Tsang Lee (Representative of Kaohsiung City Government)										
Managing Director	Li- Ming Hsu (Representative of Kaohsiung City Government)										
Independent Director	Mei-Yueh Ho										
Independent Director	Tzen-Ping Su										
Director	Richard Lee (Representative of Kaohsiung City Government)										
Director	Yuan-Pei Chou (Representative of Kaohsiung City Government)	1,817,999	1,817,999	105,024	105,024	0	22,775	0	22,775	0	0
Director	Jueifang P. Chen (Representative of Kaohsiung City Government)										
Director	Lai-Chuan Chang (Representative of Kaohsiung City Government)										
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)										
Director	Wen-Ching Yang (Representative of Heng Fong Asset Management Co., Ltd.)										
Chairman	Hsian Chung Tsai (Representative of Kaohsiung City Government)										
Director	Chien-Sheng Hao (Representative of Kaohsiung City Government)										

Note : 1. On-balance sheet salary, bonus and special allowance, etc., i.e. salary, special responsibility allowance, retirement pension, severance pay, prize, incentive, transportation allowance, special allowance, other allowances by directors who are also employees in 2012.

2. On-balance sheet employees' bonus from distribution of earnings, i.e. the employees' bonus received by the directors who are also employees in 2012 which is the employees' bonus to be distributed as approved by the Board of Directors before the shareholders' meeting for proposal of distribution of earnings for 2012.

3. No actual retirement pension was given in 2012.

Unit : NT\$ in 2012.1.1 – 2012.12.31

Title	Name	Relevant remuneration received by directors who are also employees		Ratio of total compensation (A+B+C+D+E+F+G) to net income (%)		Compensation paid to directors from an invested company other than the company's subsidiary
		Acquired Number of New Restricted Employee Shares		BOK	Companies in the financial statements	
		BOK	Companies in the financial statements			
Chairman	Toong-Min Chen (Representative of Kaohsiung City Government)					49,667
Independent Director and Managing Director	Wen-Yuan Lin					None
Managing Director	Ruey-Tsang Lee (Representative of Kaohsiung City Government)					None
Managing Director	Li-Ming Hsu (Representative of Kaohsiung City Government)					None
Independent Director	Mei-Yueh Ho					None
Independent Director	Tzen-Ping Su					None
Director	Richard Lee (Representative of Kaohsiung City Government)					None
Director	Yuan-Pei Chou (Representative of Kaohsiung City Government)	0	0	4.13	4.13	None
Director	Jueifang P. Chen (Representative of Kaohsiung City Government)					None
Director	Lai-Chuan Chang (Representative of Kaohsiung City Government)					None
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)					None
Director	Wen-Ching Yang (Representative of Kaohsiung City Government)					None
Chairman	Hsian Chung Tsai (Representative of Kaohsiung City Government)					273,333
Director	Chien-Sheng Hao (Representative of Kaohsiung City Government)					None

Note : On-balance sheet compensation to reinvested companies other than subsidiaries, i.e. such compensation as reward, remuneration, employees' bonus and expenses for execution of business received by the Bank's directors in the capacity of directors, supervisors or managers in any reinvested companies other than subsidiaries.



Range of Remunerations

Range of Remunerations	Name of Directors			
	Total of A+B+C+D		Total of A+B+C+D+E+F+G	
	BOK	Companies in the financial statements (I)	BOK	All investees (J)
under 2 million	Toong-Min Chen, Ruey-Tsang Lee, Li- Ming Hsu, Richard Lee, Yuan-Pei Chou, Jueifang P. Chen, Lai-Chuan Chang, Chien-Tsai Chao, Wen-Ching Yang, Chien-Sheng Hao	Toong-Min Chen, Ruey-Tsang Lee, Li- Ming Hsu, Richard Lee, Yuan-Pei Chou, Jueifang P. Chen, Lai-Chuan Chang, Chien-Tsai Chao, Wen-Ching Yang, Chien-Sheng Hao	Toong-Min Chen, Ruey-Tsang Lee, Li- Ming Hsu, Richard Lee, Yuan-Pei Chou, Jueifang P. Chen, Lai-Chuan Chang, Chien-Tsai Chao, Wen-Ching Yang, Hsian Chung Tsai, Chien-Sheng Hao	Toong-Min Chen, Ruey-Tsang Lee, Li- Ming Hsu, Richard Lee, Yuan-Pei Chou, Jueifang P. Chen, Lai-Chuan Chang, Chien-Tsai Chao, Wen-Ching Yang, Hsian Chung Tsai, Chien-Sheng Hao
2 million (included) ~ 5 million (uncluded)	Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su, Hsian Chung Tsai	Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su, Hsian Chung Tsai	Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su, Hsian Chung Tsai, Jueifang P. Chen	Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su, Hsian Chung Tsai, Jueifang P. Chen
5 million (included) ~ 10 million (uncluded)	—	—	—	—
10 million (included) ~ 15 million (uncluded)	—	—	—	—
15 million (included) ~ 30 million (uncluded)	—	—	—	—
30 million (included) ~ 50 million (uncluded)	—	—	—	—
50 million (included) ~ 100 million (uncluded)	—	—	—	—
over 100 million	—	—	—	—
Total	14,015,594	14,015,594	15,961,392	16,284,392

Item	Ratio of Remunerations of Directors to Net Income after Tax (%)		Remarks
	BOK	Companies in the consolidate financial statements	
FY			<ol style="list-style-type: none"> The Bank's policy for payment of compensation: pursuant to the company's management policy and Company Act, and subject to the resolution of the Bank's shareholders' meeting, compensation committee and board of directors. The Bank's standard and portfolio for payment of compensation : <ol style="list-style-type: none"> Monthly compensation to the Bank's directors/supervisors: the maximum limit to be NT\$2,400,000 subject to the resolution of the shareholders' meeting. The standard governing monthly compensation per person shall be subject to the decision of the board of directors. Board of directors is authorized to approve according to the usual level of other banks. Distribution of earnings: subject to "the Bank's Articles of Incorporation", but independent directors are not eligible for the distribution. Bonus to directors who are also employees shall be subject to the "Rules Governing Distribution of Bonus to the Bank's Staff". The Bank's procedure for fixing compensation: to be enforced upon approval of the shareholders' meeting, compensation committee and board of directors. The Bank's payment of compensation for correlation between business performance and future risk: There is some correlation among the distribution of earnings to directors and supervisors, bonus distributed to directors who are also employees, and the Bank's business performance. If a director is involved in illegal activities that caused damages to our bank, aside from the supervisors' exercise of supervision power and reporting the illegal act to the authorities, our bank shall take necessary punitive action against the director according to applicable laws.
2012	4.13	4.13	
2011	(3.27)	(3.27)	
Comparison	7.40 (Explanation 5)	7.40 (Explanation 5)	<ol style="list-style-type: none"> Percentage of remunerations of directors to net income after tax was 4.13% in FY 2012 increase by 7.40% compared to FY 2011, as a result of the loss after tax in 2011 but made a net profit after tax in 2012.

B. Remuneration of Supervisors

Unit : NT\$ in 2012.1.1 – 2012.12.31

Title	Name	Remuneration										Compensation paid to supervisors from an invested company other than the company's subsidiary
		Base Compensation (A)		Severance Pay (B)		Bonus to Supervisors (C)		Allowances (D)		Ratio of total remuneration (A+B+C+D) to net income (%)		
		BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK	Companies in the financial statements	
Supervisor	Yung-Yu Tsai (Representative of Jinn Her Enterprise co., Ltd.)											None
Supervisor	Yu-Hui Su	720,000	720,000	0	0	632,520	632,520	216,000	216,000	0.41	0.41	None
Supervisor	Shan- Hui Chang											None

- Note : 1. On-balance sheet remuneration, including supervisors' salary, special responsibility allowance, retirement pension, severance pay, prize and incentives, etc. in 2012.
 2. On-balance sheet remuneration from distribution of earnings, i.e. Supervisors' remuneration to be distributed as approved by the Board of Directors before the shareholders' meeting for proposal of distribution of earnings for 2012.
 3. On-balance sheet expenses for execution of business, i.e. transportation allowance, special allowance, other allowances etc. in 2012.
 4. On-balance sheet compensation to reinvested companies other than subsidiaries, i.e. such compensation as reward, remuneration, employees' bonus and expenses for execution of business received by the Bank's directors in the capacity of directors, supervisors or managers in any reinvested companies other than subsidiaries.

Range of Remunerations

Unit : NT\$ in 2012.1.1 – 2012.12.31

Range of Remunerations	Name of Supervisor	
	Total of A+B+C+D	
	BOK	All investees (E)
under 2 million	Yung-Yu Tsai, Yu-Hui Su, Shan-Hui Chang.	Yung-Yu Tsai, Yu-Hui Su, Shan-Hui Chang.
2 million (included) ~ 5 million (uncluded)	None	None
5 million (included) ~ 10 million (uncluded)	None	None
10 million (included) ~ 15 million (uncluded)	None	None
15 million (included) ~ 30 million (uncluded)	None	None
30 million (included) ~ 50 million (uncluded)	None	None
50 million (included) ~ 100 million (uncluded)	None	None
over 100 million	None	None
Total	1,568,520	1,568,520



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Item	Ratio of Remunerations of Supervisors to Net Income after Tax (%)		Remarks
	BOK	Companies in the consolidate financial statements	
FY			
2012	0.41	0.41	<p>1. The Bank's policy for payment of compensation: pursuant to the company's management policy and Company Act, and subject to the resolution of the Bank's shareholders' meeting, compensation committee and board of directors.</p> <p>2. The Bank's standard and portfolio for payment of compensation :</p> <p>(1) Monthly compensation to the Bank's directors/supervisors: the maximum limit to be NT\$2,400,000 subject to the resolution of the shareholders' meeting. The standard governing monthly compensation per person shall be subject to the decision of the board of directors. Board of directors is authorized to approve according to the usual level of other banks.</p> <p>(2) Distribution of earnings: subject to "the Bank's Articles of Incorporation", but independent directors are not eligible for the distribution.</p> <p>(3) Bonus to directors who are also employees shall be subject to the "Rules Governing Distribution of Bonus to the Bank's Staff".</p> <p>3. The Bank's procedure for fixing compensation: to be enforced upon approval of the shareholders' meeting, compensation committee and board of directors.</p> <p>4. The Bank's payment of compensation for correlation between business performance and future risk: There is some correlation among the distribution of earnings to directors and supervisors, bonus distributed to directors who are also employees, and the Bank's business performance. If a director is involved in illegal activities that caused damages to our bank, aside from the supervisors' exercise of supervision power and reporting the illegal act to the authorities, our bank shall take necessary punitive action against the director according to applicable laws.</p> <p>5. Percentage of remunerations of supervisors to net income after tax was 0.41% in FY 2012 increase by 0.63% compared to FY 2011, as a result of the loss after tax in 2011 but made a net profit after tax in 2012.</p>
2011	(0.22)	(0.22)	
Comparison	0.63 (Explanation 5)	0.63 (Explanation 5)	

C. Compensation of President and Vice President

Unit : NT\$ in 2012.1.1 – 2012.12.31

Title	Name	Salary (A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing-Employee Bonus (D)			
		BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK		Companies in the financial statements	
								Cash	Stock	Cash	Stock
President	Jeff Chen										
Exec. Vice President	Chun-Ching Ko										
Exec. Vice President	Yi-Jong Liou	9,390,543	9,390,543	633,624	633,624	2,573,570	2,573,570	0	88,451	0	88,451
Chief Auditor	Chung-Chen Lin										
President	Charles-W. Chung										

Note : 1. On-balance sheet salaries, including president' and vice presidents' salary, special responsibility allowance, retirement pension, severance pay in 2012.

2. On-balance sheet bonus and special allowance, including president and vice presidents' prize, incentive, transportation allowance, special allowance, and other allowances etc. in 2012. The Bank offers one dormitory for the President, and the rent in 2012 was NT\$45,500. The Bank offers one vehicle for the President, and the rent in 2012 was NT\$357,600. The fuel allowances were NT\$25,300 in 2012. One driver was offered, whose remuneration was NT\$843,010 in 2012.

3. On-balance sheet employees' bonus from distribution of earnings, which is the employees' bonus to be distributed as approved by the Board of Directors before the shareholders' meeting for proposal of distribution of earnings for 2012.

4. No actual retirement pension was given in 2012.

Unit : NT\$ in 2012.1.1 – 2012.12.31

Title	Name	Ratio of total compensation (A+B+C+D) to net income (%)		Exercisable Employee Stock Options		Acquired Number of New Restricted Employee Shares		Compensation paid to the president and vice president from an invested company other than the company's subsidiary
		BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK	Companies in the financial statements	
President	Jeff Chen	3.28	3.28	0	0	0	0	53,000
Exec. Vice President	Chun-Ching Ko							192,000
Exec. Vice President	Yi-Jong Liou							72,000
Chief Auditor	Chung-Chen Lin							None
President	Charles-W. Chung							None

Note : On-balance sheet compensation to reinvested companies other than subsidiaries, i.e. such compensation as reward, remuneration, employees' bonus and expenses for execution of business received by the Bank's directors in the capacity of directors, supervisors or managers in any reinvested companies other than subsidiaries.

Range of Remunerations

Unit : NT\$ in 2012.1.1 – 2012.12.31

Range of Remunerations	Name of President and Vice Presidents	
	BOK	All investees (E)
under 2 million	Charles W. Chung	Charles-W. Chung
2million (included) ~ 5 million (uncluded)	Jeff Chen, Chun-Ching Ko, Yi-Jong Liou, Chung-Chen Lin	Jeff Chen, Chun-Ching Ko, Yi-Jong Liou, Chung-Chen Lin
5 million (included) ~ 10 million (uncluded)	None	None
10 million (included) ~15 million (uncluded)	None	None
15 million (included) ~ 30 million (uncluded)	None	None
30 million (included) ~ 50 million (uncluded)	None	None
50 million (included) ~ 100 million (uncluded)	None	None
over 100 million	None	None
Total	12,686,188	13,003,188

Item	Ratio of Remunerations of President & Exec. Vice President to Net Income after Tex (%)		Remarks
	BOK	Companies in the consolidate financial statements	
FY			
2012	3.28	3.28	<ol style="list-style-type: none"> The Bank's policy for payment of compensation: pursuant to the company's management policy and Company Act, and subject to the resolution of the Bank's shareholders' meeting, compensation committee and board of directors. The Bank's standard and portfolio for payment of compensation : <ol style="list-style-type: none"> Monthly compensation to the Bank's directors/supervisors: the maximum limit to be NT\$2,400,000 subject to the resolution of the shareholders' meeting. The standard governing monthly compensation per person shall be subject to the decision of the board of directors. Board of directors is authorized to approve according to the usual level of other banks. Distribution of earnings: subject to "the Bank's Articles of Incorporation", but independent directors are not eligible for the distribution. Bonus to directors who are also employees shall be subject to the "Rules Governing Distribution of Bonus to the Bank's Staff". The Bank's procedure for fixing compensation: to be enforced upon approval of the shareholders' meeting, compensation committee and board of directors. The Bank's payment of compensation for correlation between business performance and future risk: There is some correlation among the distribution of earnings to directors and supervisors, bonus distributed to directors who are also employees, and the Bank's business performance. If a director is involved in illegal activities that caused damages to our bank, aside from the supervisors' exercise of supervision power and reporting the illegal act to the authorities, our bank shall take necessary punitive action against the director according to applicable laws. Percentage of remunerations of president & exec. vice president to net income after tax was 3.28% in FY 2012 increase by 6.03% compared to FY 2011, as a result of the loss after tax in 2011 but made a net profit after tax in 2012.
2011	(2.75)	(2.75)	
Comparison	6.03 (Explanation 5)	6.03 (Explanation 5)	



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D. Employees' bonuses to managers

Unit : NT\$

Title		Name	Bonus - in Stock	Bonus - in Cash	Total	Ratio of Total Amount to Net Income (%)
Executive Officers	President	Charles-W. Chung	1,199,213	0	1,199,213	0.31
	Exec.Vice President	Chun-Ching Ko				
	Exec. Vice President	Yi-Jong Liou				
	Chief Auditor	Chung-Chen Lin				
	Chief Secretary	Tsui-Mei Hsu				
	Business Management Dept., Vice President and General Manager	Anna Hsu				
	Risk Management Dept., and Research & Development Dept., Vice President and General Manager	Johnson Huang				
	Credit Management Dept., Vice President and General Manager	Ting-Lien Lin				
	Executive Administration Dept., and Human Resources Dept., Vice President and General Manager	Hwa-Jen Lee				
	Legal Affair Dept., Vice President and General Manager	Te-Chin Chou				
	Treasury Dept., Vice President and General Manager and OBU, General Manager	J.C. Shou-Jen Chen				
	Information Technology Dept., Vice President and General Manager	I-Fen Chen				
	Municipal Treasury Dept., General Manager	Mei-Ling Chen				
	Business Dept., General Manager	Jin-Ann Wang				
	International Banking Dept., General Manager	Shuen-Hua Chen				
	Trust Dept., General Manager	Shiow-Jen Tsai				
	Wealth Management Dept., General Manager	Jung-Tai Chang				
	Gangshan Benjhou Branch, General Manager	Ming-Hung Wu				
	Feng Shan Branch, General Manager	Chung-Hui Wang				
	Chien Chin Branch, General Manager	Yi-Chen Yu				
	San Min Branch, General Manager	Yen-Ching Hsien				
Tso Ying Branch, General Manager	Mei-Chu Chang					
Hsiao Kang Branch, General Manager	Jin-Biau Tsai					
Tao Yuan Branch, General Manager	Chuan- Pin Kao					
Chien Chen Branch, General Manager	Chi-Jen Lin					

Title	Name	Bonus - in Stock	Bonus - in Cash	Total	Ratio of Total Amount to Net Income (%)
Yu Chang Branch, General Manager	Ming-Fu Hsieh				
Wan Nei Branch, General Manager	Yuan-Chin Shiang				
Pin Tung Branch, General Manager	Shui-Hsing Kuo				
Kwei Lin Branch, General Manager	Chi-Chang Chen				
Kwei Lin Branch, General Manager	Shiow-Lien Su				
Liu Ho Branch, General Manager	Ju-Chen Lu				
Nan Tze Branch, General Manager	Wei-Min Wu				
Ku Shan Branch, General Manager	Trey-Shin Lee				
Chien Kuo Branch, General Manager	Hsien-Kuo Chen				
Chiu Ju Branch, General Manager	Shiu-Hui Liu				
Yen Cheng Mini Branch, General Manager	Huey-Fung Lin				
Tsao Ya Branch, General Manager	Ching-Tsan Chen				
Banciao Branch, General Manager	Te-Ching Wan				
Tai Nan Branch, General Manager	Ming-Ta Yang				
San To Branch, General Manager	Hueng-Fen Yen				
Da Fa Branch, General Manager	Wen-Hau Sher				
Ta Chih Branch, General Manager	Don Huang				
Tai Chung Branch, General Manager	Yeh-Shing Wang				
Chi Chin Mini Branch, General Manager	Fang-Lan Lin				
Nan Kaohsiung Branch, General Manager	Tzu-Dan Yen				
Tachang Branch, General Manager	Wen-Lueh Su				
Hsin Chu Branch, General Manager	Hsien- Chung Liao				
Shih Fu Branch, General Manager	Chiu-Chin Huang				
Chung Ho Branch, General Manager	Chuck Chen				
Taipei Branch General Manager.	Aaron Ting				
Min Cheng Branch, General Manager	Li-Hwa Chen				
Pei Kaohsiung Branch, General Manager	Pi-Jung Ko				
Po Ai Branch, Acting General Manager	Wei-Lin Hsu				

Note: On-balance sheet employees' bouns, i.e. the employees' bouns bo be distributed to the officers as approved by the Board of Directors before the shareholders' meeting for proposal of distribution of earnings for 2012.



3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 11 meetings of the board of directors were held in the previous period.

Director attendance was as follows:

Title	Name	Attendance in Person (B)	By proxy	Attendance ratio (%)	Remarks
Chairman	Toong-Min Chen (Representative of Kaohsiung City Government)	2	0	100.00	Elected on Nov. 1, 2012, 2 times of should be attendance
Chairman	Hsian Chunt Tsai (Representative of Kaohsiung City Government)	7	0	100.00	Resigned on Sep. 17, 2012, 7 times of should be attendance
Independent Director and Managing Director	Wen-Yuan Lin	9	1	81.82	None
Managing Director	Ruey-Tsand Lee (Representative of Kaohsiung City Government)	10	1	90.91	None
Managing Director	Li- Ming Hsu (Representative of Kaohsiung City Government)	5	3	45.45	None
Independent Director	Mei-Yueh Ho	10	0	90.91	None
Independent Director	Tzen-Ping Su	10	1	90.91	None
Director	Richard Lee (Representative of Kaohsiung City Government)	7	4	63.64	None
Director	Yuan- Pei Chou (Representative of Kaohsiung City Government)	10	1	90.91	None
Director	Jueifang P. Chen (Representative of Kaohsiung City Government)	11	0	100.00	None
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)	8	3	72.73	None
Director	Wen-Ching Yang (Representative of Heng Fong Asset Management Co., Ltd.)	8	1	72.73	None
Director	Lai-Chuan Chang (Representative of Kaohsiung City Government)	10	0	90.91	None
Others					
<p>1. The effort of directors in preventing a "conflict of interest": 10th board of directors' meeting of 11th term, During the discussion of AU Optronics Corp., Independent Director Mei-Yueh Ho avoided participation in the discussion.</p> <p>2. Progress assessment of the 2012 agenda – empowerment of the Board of Directors: All members of the Bank's Board of Directors execute business with care and loyalty, and perform their duty according to the relevant laws and the Bank's articles of incorporation to protect the Bank's and shareholders' interests and rights. The Bank also amended the "Rules for Board Meetings of the Bank of Kaohsiung", "Parliamentary Rules for Shareholders' Meeting of the Bank of Kaohsiung", "Rules for Board of the Bank of Kaohsiung" etc., in order to upgrade the functions and operations of the Board of Directors.</p>					

3.3.2 Attendance of Supervisors for Board Meetings

A total of 11 meetings of the board of directors were held in the previous period. Supervisor attendance was as follows:

Title	Name	Attendance in Person	Attendance ratio (%)	Remarks
Supervisor	Yung-Yu Tsai (Representative of Jinn Her Enterprise Co., Ltd.)	5	45.45	None
Supervisor	Yu-Hui Su	7	63.64	None
Supervisor	Shan-Hui Chang	11	100.00	None

Other mentionable items:

1. Composition and responsibilities of supervisors:

- (1) Communication between supervisors and the Bank's employees and shareholders:
Supervisors will contact the Auditing Dept. of the Board of Directors, Secretary's Dept. of the Board of Directors and Business Management Dept. from time to time, and review the condition of the Bank.
- (2) Communications between supervisors and the Bank's Chief Internal Auditor and CPA:
Supervisors often communicate with the Auditing Dept. of the Board of Directors, Business Management Dept., and the independent CPA for this Bank's finance and business via written materials or meetings. This communication is helpful for the execution of the motions proposed in the board of directors' meetings. 4 sessions of supervisors meeting were held in 2012.

2. Supervisor expresses an opinion during a meeting of the Board of Directors:

Board of Directors

Date	Term	Content	The Resolutions	The execution of the resolutions
2012.2.23	5rd board of directors' meeting of 11th term	Report on the compliance and the execution of the internal control plan of the Bank in 2012, and the status of compliance performed by the Compliance Officer of the Bank in the period of July to December, 2011. The message delivered by Supervisor Su Yu-Huei: <ul style="list-style-type: none"> 1. The amendment to essential legal rules currently in effect or promulgation of new law through official notices in writing shall be subject to the promotion and education or related function in order to enforce the law properly. 2. The shortcomings in operation commonly seen in the Bank and essential legal rules should be incorporated into the plan of 2012. 3. In case there is an amendment to the applicable legal rules with upper and lower limits, specify this in the field of remarks for clarification. 	Acknowledged by all of the present directors	Supervisor Su's comments shall be adopted.



Date	Term	Content	The Resolutions	The execution of the resolutions
2012.10.25	9th board of directors' meeting of 11th term	<p>The speech delivered by Supervisor Su Yu-Huei in response to the motion of continued appointment of Chien Hsing Certified Public Accountants to perform the financial audit and taxation audit on the Bank and makes related declaration in 2013 (January 1 to December 31, 2013):</p> <ol style="list-style-type: none"> 1. According to page 1, section (IV) of the agreement, the interim report of the next year requires no certification of CPAs but just for review, please consult with the CPA for adjusting that part of the audit work. 2. The quarterly report in Q1 of the next year shall be completed and reviewed within 45 days after March 31, and shall be subject to the approval of the Board, I suggest the Secretariat of the Board to adjust the schedule of the agenda of the Board meeting and allow sufficient time for the directors and supervisors or the management to communicate with the CPA. This is particularly important for the initial version of the disclosures and notes to the financial statement. As such, sufficient time must be allocated for this purpose. 	Other proposals are approved as presented, except for the contract that has been modified pursuant to Supervisor Mr. Su's suggestion.	Supervisor Su's comments shall be adopted.
2012.12.20	10th board of directors' meeting of 11th term	<p>In responding to the newly amended Personal Information Protection Act and its implementation procedure which came into full force on October 1 2012, a motion is proposed to amend the "Criteria for Confidentiality of Customer Information at Bank of Kaohsiung". The speech delivered by Supervisor Su Yu-Huei:</p> <ol style="list-style-type: none"> 1. The committee and the task force shall convene regularly and as needed. 2. In the first convention, the focus should be made on the duties and tasks specified in Section 1~5 of Article 3 particularly to let everyone know the content of the amendment and the area for confidentiality thereof. This could be adopted to evaluate the awareness of all banking staff in risk and can respond accordingly. 	Proposals are approved by all of the present directors.	Supervisor Su's comments shall be adopted.

3.3.3 For the Disclosures Required by the "Guidelines for Bank Corporate Governance" : Please refer to www.bok.com.tw.

3.3.4 The Differences between the Corporate Governance Practice of the Bank and the "Guidelines for Bank Corporate Governance" :

Item	Operation	The Difference from Coporate Governance Best Practice Principles for Banking Industry and Reason
A. Equity Structure and Shareholder Rights		
1. Method of handling shareholder suggestions and disputes	1. The Bank has installed hot lines and e-mail boxes exclusively for shareholders' suggestions and resolutions.	1. In accordance with the "Guidelines for Bank Corporate Governance" article 19.
2. Name list of shareholders with controlling interest, and ultimate controllers of major shareholders	2. The major shareholder of the Bank is Kaohsiung City Government, holding 45.28% of the Bank's shares. Its representative also performs his duty pursuant to the rules governing investment by Kaohsiung City Government in the Bank.	2. In accordance with the "Guidelines for Bank Corporate Governance" article 20 & 27.
3. Mechanism for controlling risk with related companies, and firewall method	3. The Bank controls its affiliated enterprises in accordance with the guidelines governing the Bank's supervision of subsidiaries.	3. In accordance with the "Guidelines for Bank Corporate Governance" article 21.
B. Organization and Responsibilities of the Board of Directors		
1. Does the Bank set seats for independent directors?	1. The Bank has elected Wen-Yuan Lin, Mei-Yueh Ho and Tzen-Ping Su as independent directors in the general shareholders' meeting in 2011.	1. In accordance with the "Guidelines for Bank Corporate Governance" article 31.
2. Regular assessment of independence of CPA	2. (1) Assessments: Auditors were assessed for their independence. They must not act as a director, supervisor, or employee of the Bank; nor can they own, directly or indirectly, more than 1% of the Bank's outstanding share capital or become one of the Bank's top ten natural person shareholders. The auditor's firm must issue a declaration of independence. (2) Frequency of assessment: The assessment of independence is reported to the Board of Directors once a year.	2. In accordance with the "Guidelines for Bank Corporate Governance" article 38.
C. Establishment of Communication Channels with Materially Related Parties		
The communication channels of the Bank and the related parties	1. According to the Banking Act, the Bank will ask any materially related party to complete the materially related party's information form immediately after he / she is hired, and also provide the materially related party with the credit extension restrictions provided by the Banking Act and the competent authorities. 2. Have the materially related party's information as documented checked, verified and updated by the materially related party periodically. The Bank's communication with the materially related party is free from any interruption. 3. The Bank has appointed a spokesperson, installed toll-free hot line and email box to provide suggestion and explanation about questions to the Bank's customers and shareholders. Meanwhile, the Bank also holds the community wealth management symposiums and provides the in-house staff with the information about the corporate governance irregularly, and discloses the financial information in MOPS.	In accordance with the "Guidelines for Bank Corporate Governance" article 22 & 23.



Item	Operation	The Difference from Corporate Governance Best Practice Principles for Banking Industry and Reason
D. Disclosure of Information		
1. Establishment of a website where information on financial operations and corporate governance is disclosed.	1. The Bank has established a website (www.bok.com.tw) where information on financial operations and corporate governance of the Bank is disclosed.	1. In accordance with the "Guidelines for Bank Corporate Governance" article 69.
2. Use of other methods for information disclosure	2. The Bank's english website may be accessed from the said website. The spokesperson of the Bank is Chief Secretary Tsui-Mei Hsu. The Bank also appoints specialized personnel to collect and disclose the public information.	2. In accordance with the "Guidelines for Bank Corporate Governance" article 67 & 68.
E. Operations of Functional Commissions Such as The Nomination or Compensation Committees Established by The Bank	The bank has established Compensation Committee on Dec. 29, 2011.	In accordance with the "Guidelines for Bank Corporate Governance" article 35 & 36.
F. The Differences between the Corporate Governance Practice of the Bank and the "Guidelines for Bank Corporate Governance" Reasons for the Difference: <ol style="list-style-type: none"> 1. Does the Bank set independent supervisors? Article 14-4 of the "Securities and Exchange Act" expressly provides that a company shall install either of the audit committee or supervisor. For the time being, the Bank is having supervisors exercise their functions independently. 2. Is there a auditing committee ? The bank has established Compensation Committee on Dec. 29, 2011. 		
G. Important Information of Corporate Governance Practice of the Bank : <ol style="list-style-type: none"> 1. With investor related : The major shareholder of the Bank is Kaohsiung City Government, holding 45.28% of the Bank's shares. Its representative also performs his duty pursuant to the rules governing investment by Kaohsiung City Government in the Bank. 2. Employee rights: Please refer to page 69 "Fulfillment of Labor Rights". 3. Right of related parties: Please refer to page 31 "Establishment of Communication Channels with Materially Related Parties". 4. Training record of directors and supervisors in 2012 : Please refer to Page 39 appendix Training record of directors and supervisors in 2012". 5. Execution of risk management policies and risk measuring standards : Please refer to page 125 "This Bank's risk management systems". 6. Execution of customers' policies : In order to improve the services provided to customers and communication with customers, we have a toll free hot line, and customer service window setup exclusively for credit, financial derivatives and negotiation mechanisms for consumers' financial debt. 7. Purchase of liability insurance by the Bank for directors and supervisors : The Bank has purchased "Directors, Supervisors & Officers Liability Insurance" from Cathay Century Insurance Co., Ltd. On Jun. 2, 2012. 8. the Bank made a donation to political parties or stakeholders or a group of public welfare: Please refer to Page 68 "Social Responsibility and Moral Behavior of the Bank", In addition, the Bank has never made a donation to political parties or stakeholders. 		
H. Corporate Governance Self-Assessment Report or Result of Assessment Report Made by Other Professional Organization on a Consignment Basis, Major Defects (or Suggestions) and Improvement Thereof : The Bank did not make the corporate governance self-assessment report before Mar. 2013.		

3.3.5 Duty and Implementation of the Remuneration Committee

3.3.5.1 Members of the Remuneration Committee

position	Name	Criteria			Number of Other Public Companies in Which the Individual is Concurrently Serving as Members of the Remuneration Committee
		Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Bank in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, CPA, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Bank	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Bank	
Independent Director	Mei-Yueh Ho			✓	2
Independent Director	Wen-Yuan Lin			✓	1
Independent Director	Tzen-Ping Su			✓	0

position	Name	Independence Criteria (Note)								Remarks
		1	2	3	4	5	6	7	8	
Independent Director	Mei-Yueh Ho	✓	✓	✓	✓	✓	✓	✓	✓	
Independent Director	Wen-Yuan Lin	✓	✓	✓	✓	✓	✓	✓	✓	
Independent Director	Tzen-Ping Su	✓	✓	✓	✓	✓	✓	✓	✓	

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

1. Not an employee of the Bank or any of its affiliates.
2. Not a director or supervisor of the Bank or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Bank, its parent company, or any subsidiary in which the Bank holds, directly or indirectly, more the 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding share of the Bank or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding share of the Bank or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Bank.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Bank or to any affiliate of the Bank, or a spouse thereof.
8. Not been a person of any conditions defined in Article 30 of the Company Law.

3.3.5.2 Implementation of the Remuneration Committee

A. Members of the Remuneration Committee: 3 persons.

B. Term: From Dec.29, 2011 to Jun.15, 2014. A total of 2 meetings (A) of the Remuneration Committee were held in FY 2012, members attendance was as follows:

Title	Name	Attendance in Person (B)	By proxy	Attendance ratio (%) (B/A)	Remarks
convener	Mei-Yueh Ho	2	0	100.00	
member	Wen-Yuan Lin	2	0	100.00	
member	Tzen-Ping Su	2	0	100.00	



Other matters that should be recorded:

(1) If the Board of Directors refuses to accept or modify the suggestions of the compensation committee, the meeting date, term, agenda content, resolution and the bank's treatment of the compensation committee's opinion should be clearly stated (for example, if the Board of Directors approved a compensation structure that is better than the Compensation Committee's recommendation, the circumstance and the reason of the difference should be clearly stated):

The Board takes the advice of the Remuneration Committee and approves the Committee's proposal on remuneration distribution.

(2) If the members have opposite opinion or reservations against the resolution of the Compensation Committee and such opposing opinion or reservations have been recorded or documented, the meeting date, term, agenda content, the opinion of all members, of the Compensation Committee, and the treatment of the members' opinion should be clearly stated: None.

3.3.6 The Bank Towards its Social Responsibility

Item	Operation	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
<p>A. Actualizing the Promotion of Corporate Governance Policies</p> <p>1. Condition where the Bank sets forth Corporate Social Responsibility (CSR) policies or regulations and examines performance results from the implementation</p>	<p>The Bank has not set forth "Corporate Social Responsibility (CSR) Practice Principles" before Mar. 2013.</p>	<p>The Bank has not set forth "Corporate Social Responsibility (CSR) Practice Principles" before Mar. 2013.</p>
<p>2. Condition where the Bank sets up full (part) time departments to promote the operation of corporate social responsibility</p>	<p>The Bank has not set up full (part) time departments to promote the operation of corporate social responsibility before Mar. 2013.</p>	<p>The Bank has not set up full (part) time departments to promote the operation of corporate social responsibility before Mar. 2013.</p>
<p>3. Condition where the Bank regularly holds business ethics educational training and advocacy events for members of the board, supervisors and staff. The Bank also integrates the events with staff performance evaluation system to establish a clear and effective reward and penalty program</p>	<p>(1) In order to implement corporate ethics and promotional matters, relevant courses are held annually (such as business rules and professional ethics seminars) and directors, supervisors and employees are sent irregularly to participate in relevant professional courses held by professional training institutions.</p> <p>(2) Employee ethics are included into annual performance review items.</p> <p>(3) In order to implement enterprise ethics, "Employee Service Rules" are established for employees' compliance. In case of any report or assistance with any discovery of an illegal case or violation of rules, rewards or sanctions shall be granted or imposed considering the actual situation in accordance with the "Rules for Rewards and Sanctions for Employees".</p>	<p>In accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" article 11.</p>
<p>B. Develop Sustainable Environment</p> <p>1. Condition where the Bank is devoted to enhancing the effective use of all resources and making use of recycled materials that pose the least impact to the environment</p>	<p>None.</p>	<p>The Bank has not devoted to enhancing the effective use of all resources before Mar. 2013.</p>

Item	Operation	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
2. Condition where the Bank establishes appropriate environment management system according to industry characteristics	None.	The Bank did not establish appropriate environment management system before Mar. 2013.
3. Condition of setting up exclusive environment management department or personnel to protect the environment	Each division shall seek suppliers to be responsible for environmental maintenance work and designate dedicated personnel for guidance and management.	In accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" article 15.
4. Condition where the Bank watches out for impact that weather changes have on operational activities and sets forth strategies in regards to the Bank's energy saving, carbon reduction and greenhouse gas volume reduction	<ol style="list-style-type: none"> 1. Old lighting fixtures shall be replaced by T5 or LED energy-saving lighting fixtures and light tubes. 2. Adopt inverter air conditioning equipment as permitted under installation environment. 	In accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" article 18.
<p>C. Protection of Social Wellness</p> <p>1. Condition where the Bank follows related labor regulations, respects internationally recognized principle of labor rights, protects employees' legal rights and nondiscrimination of the employment policy, and establishes appropriate management method, procedure and the implementation.</p>	The relevant human resource rules and systems of the Bank are established based on relevant labor laws and regulations to specify employee rights and obligations. Further, to implement the protection of employee interest, starting from 2002, the Bank has been signing "group contracts" with the union (every three years). Most of the provisions under the group contracts are more favorable compared to provisions under existing relevant labor laws and regulations.	In accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" article 19.
2. Condition where the Bank provides its employees a safe and healthy working environment, as well as implements safe and healthy education regularly for the employees	<ol style="list-style-type: none"> 1. The Bank provides a working environment with employee safety and health in accordance with the "Labor Safety and Health Act". Also, in accordance with the "Regulations for Labor Health Protection", starting from 2002, the Bank pays for employee health examinations. The examination items and terms are both more favorable than the provisions under the "Labor Health Protection Regulation". 2. The Bank holds "First Aide Staff On-the-Job Training" and "On-the-Job Training for Executive of Labor Safety and Health" in accordance with the "Regulations for Labor Safety and Health Education and Training". Further, in order to improve employee health, safety and health professionals (such as Chinese and western medicine physicians, nutritionists and university professors, etc.) are invited to give "Health Seminars" irregularly. 	In accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" article 21.



Corporate Governance Report

Item	Operation	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
3. Condition where the Bank establishes a mechanism for routine communication between itself and the employees and take reasonable actions to notify the employees of changes in the operation that may cause significant influence.	For the establishment of the communication mechanism between itself and the employees, the Bank has a mail box for the opinions of the employees, and holds labor-management meetings when necessary.	In accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" article 23.
4. Condition where the Bank sets forth and makes public announcements of consumer rights policies, also provides transparent and effective consumer complaint procedure for its products and service	Execution of customers' policies : In order to improve the services provided to customers and communication with customers, we have a toll free hot line, and customer service window setup exclusively for credit, financial derivatives and negotiation mechanisms for consumers' financial debt.	In accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" article 24.
5. Condition where the Bank and supplier cooperate for the enhancement of business' social responsibilities	Cooperate with computer equipment maintenance supplier to select the usable portion of personal computer equipment abandoned by the Bank, make adjustments thereto and then donate them to disadvantaged groups.	In accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" article 27.
6. Condition where the Bank participates in community development and related events hosted by charitable organizations through business activities, goods donation, volunteer service or other free professional service	The Bank has always prepared of public welfare activities in the past, and financially sponsored the various public welfare activities held by the government and private groups, and the various public welfare activities. Additionally, the Bank incorporated the "Bank of Kaohsiung Charity Foundation" to take part in the event together by adhering to the philosophy on "what is taken from the society is used in the interests of the society". The Bank also cares and feedbacks to society in a timely manner to fulfill the Bank's social duty.	In accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" article 28.
D. Reinforce Information Revelation 1. Method where the Bank reveals information related to corporate social responsibility with relevance and accountability	Disclose information related to enterprise social responsibility in the annual report.	In accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" article 29.
2. Condition where the Bank edits reports in regards to corporate social responsibility as well as reveals and promotes corporate social responsibility	None	The Bank has not set forth reports in regards to corporate social responsibility before Mar. 2013.
E. A Bank that has set forth its own corporate social responsibility (CSR) in accordance to "Corporate Social Responsibility (CSR) Practice Principles for Listed (O.T.C) Company", please describe any difference between real execution and principles that have been set forth: The Bank has not set forth "Corporate Social Responsibility (CSR) Practice Principles" before Mar. 2013.		
F. Other important information beneficial for understanding the operation of business' social responsibility (e.g., the Bank's execution in regards to environment conservation, participation in community activities, contribution to society, societal service, social welfare, consumer rights, human rights, sanitation safety and other social responsibility activities):Please refer to page 68 "social responsibility and moral behavior of the bank".		
G. If the Bank's products or reports on corporate social responsibility have passed the verification standard set by related certification organization, further clarification shall be provided: None.		

3.3.7 The Bank Practice and measures for its Ethical Corporate Management

Item	Operation	Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
<p>A. Codifying ethical corporate management best practice principles and plans</p> <p>1. The bank should clearly state its policy of ethical corporate management best practice principles in its bylaws and documents that would be circulated outside the bank, as well as the status of implementation as promised by the Board of Directors and the Management.</p>	<p>The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2013.</p>	<p>The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2013.</p>
<p>2. The circumstance of the bank's plan to prevent unethical business practices, and the functioning of the operating procedures, business conduct guidance, and training in the plan.</p>	<p>The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2013.</p>	<p>The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2013.</p>
<p>3. The status of the implementation of measures preventing the receiving and paying bribes, as well as making illegal political contribution, on business activities with higher risk of unethical conduct in the range of operation when the bank's plan to prevent unethical business practices.</p>	<p>The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2013.</p>	<p>The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2013.</p>
<p>B. Implement Ethical Corporate Management Best Practice Principles</p> <p>1. The bank shall avoid engaging in commercial activities with those who have records of unethical conduct, and clearly specify ethical corporate management best practice principles in contracts.</p>	<p>The Bank conducts its business in transparency and fairness, and has no business with parties lacking integrity. The integrity clause shall be explicitly stated in the agreement in the future to prevent any transaction with parties that have records on integrity violation.</p>	<p>In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" article 9.</p>
<p>2. The operation of the business unit established by the bank that is solely (concurrently) responsible for implementing ethical corporate management best practice principles, and the status of supervision by the Board of Directors.</p>	<p>The Bank has not set up full (part) time departments to promote the operation of ethical corporate management before Mar. 2013.</p>	<p>The Bank has not set up full (part) time departments to promote the operation of ethical corporate management best practice before Mar. 2013.</p>
<p>3. The status of operation of the policy established by bank to prevent conflicts of interest and provide appropriate channel of appeal.</p>	<p>Article 17 of Rules of Procedure for Board of Directors Meetings: A director may present his opinion and answer relevant questions but is prohibited from participating in discussion of or voting on any proposal where the director or the juristic person that the director represents is an interested party, and such participation is likely to prejudice the interests of the company; neither shall a director vote on such proposal as a proxy of another director in such circumstances.</p>	<p>In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" article 16.</p>



Corporate Governance Report

Item	Operation	Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
<p>4. The operational condition of the effective accounting system and internal control system established by the bank for the purpose of implementing ethical corporate management best practice principles, and examination of the bank's compliance by internal auditors.</p>	<p>1. The Bank has established its internal control system. For the practice of integrity in business, the Bank has also instituted an effective accounting system and management regulations, and has established an exception reporting system for the banking staff. At the same time, the Bank also reviews and revises its internal control to ensure the effectiveness of the design and the execution of the internal control system.</p> <p>2. The auditing function of the Bank has conducted audits on the Bank's internal control system and the accounting system as required, and has submitted relevant audit reports. In addition, audit deficiencies were subject to corrective actions under proper tracking. The status of internal control has been reported to the Board of Directors regularly to continue the monitoring of the operation of the Bank in conformity to the principle of integrity.</p>	<p>In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE / GTSM-Listed Companies" article 17.</p>
<p>C. The operating condition of the establishment of channel for receiving reports on unethical conduct and a well-defined disciplinary and compliant system to handle violation of the ethical corporate management rules.</p>	<p>The Bank's auditing function, Legal Affairs Dept., Human Resources Dept., can accept the reports and complaints of the breach of integrity. In addition, the Bank has instituted the "Banking Personnel Reward and Punishment Regulation" basing on which the misconduct of the banking personnel shall be punished.</p>	<p>In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE / GTSM-Listed Companies" article 20.</p>
<p>D. Reinforce Information Revelation</p> <p>1. The condition of disclosure of information related to ethical corporate management best practice principles on the bank's website</p>	<p>None</p>	<p>The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2013.</p>
<p>2. Other means of disclosures adopted by the Bank</p>	<p>None</p>	<p>The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2013.</p>
<p>E. A Bank that has set forth its own Ethical Corporate Management Best Practice Principles in accordance to "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies", please describe any difference between real execution and principles that have been set forth: The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2013.</p>		
<p>F. Other material information helpful to the understanding of the bank's ethical corporate management best practice principles (for example, the bank's dissemination of its determination and policy to adhere to ethical corporate management best practice principles, the bank's invitation to its clients to such training, the revision of said principles codified by the bank, and so on.): None.</p>		

3.3.8 Corporate governance guidelines and related bylaws: The Bank has not drafted corporate governance guidelines and related bylaws up to Mar. 2013.

3.3.9 Other material information useful to the understanding of corporate governance and its implementation: None.

Appendix: Training record of directors and supervisors in 2012

Period	Title	Name	Serves	Training Record		
				Class Name	Hours	Unit in Charge
Q1	Chairman	Hsian-Chung Tsai	None	Disquisition: Customer Relation Management	2	Bank of Kaohsiung
				The newly amended Securities and Exchange Act and the control and case study of insider transactions.	3	Chinese National Association of Industry and Commerce
	Managing Director	Ruey-Tsang Lee	Director, Finance Bureau KaohsiungCity Government	The newly amended Securities and Exchange Act and the control and case study of insider transactions.	3	Chinese National Association of Industry and Commerce
	Independent Director	Mei-Yueh Ho	Independent Director, Bank of Kaohsiung	The newly amended Company Act and the Important Notices to the Board of Directors and General Meeting of shareholders.	3	Chinese National Association of Industry and Commerce
	Independent Director	Tzen-Ping Su	Independent Director, Bank of Kaohsiung	corporate governance and risk manage	3	Taiwan Securities Association
	Director	Richard Lee	Partner Attorney, Yuan Chen Law Office	corporate governance and the risk response to the Fair Trade Act	3	Taiwan Securities Association
	Director	Wen-Ching Yang	Representative of Heng Fong Asset Management Co., Ltd.	The newly amended Company Act and the Important Notices to the Board of Directors and General Meeting of shareholders.	3	Chinese National Association of Industry and Commerce
How to utilize corporate resources for the effective implementation of corporate governance				3	Chinese National Association of Industry and Commerce	



Corporate Governance Report

Period	Title	Name	Serves	Training Record		
				Class Name	Hours	Unit in Charge
Q2	Chairman	Hsian-Chung Tsai	None	The newly amended Company Act and the Important Notices to the Board of Directors and General Meeting of shareholders.	3	Chinese National Association of Industry and Commerce
	Independent Director	Mei-Yueh Ho	Independent Director, Bank of Kaohsiung	Description and seminars of the functions of independent directors in listed companies	3	Taiwan Stock Exchange
	Independent Director	Tzen-Ping Su	Chairman, Advance Media Social Enterprise Co.	Description and seminars of the functions of independent directors in listed companies	3	Taiwan Stock Exchange
	Director	Richard Lee	Partner Attorney, Yuan Chen Law Office	Disputes and risks facing Taiwan companies in their investment in Mainland China	3	Taiwan Securities Association
				The practice and application of "forensic accounting" on business fraud.	3	Taiwan Securities Association
				The basic knowledge of the enterprises in "Personal Information Protection Act"	3	Taiwan Securities Association
Q3	Independent Director	Mei-Yueh Ho	Independent Director, Bank of Kaohsiung	Financial risk types and case analysis	3	Chinese National Association of Industry and Commerce
	Director	Richard Lee	Partner Attorney, Yuan Chen Law Office	The functions of independent directors and the practice of the Auditing Committee	3	TAIWAN CORPORATE GOVERNANCE ASSOCIATION
	Supervisor	Yu-Hui Su	Professor, Accounting Department of Soochow University	The new challenges to the Remuneration Committee and the trend of international remuneration governance	3	TAIWAN CORPORATE GOVERNANCE ASSOCIATION (oneself join)
Q4	Chairman	Toong-Min Chen	Chairman	"A Discussion on Internal Control System and The Legal Liability of the Internal Auditors from the Perspective of Corporate Governance"	6	Chinese National Association of Industry and Commerce
	Director	Wen-Ching Yang	Representative of Heng Fong Asset Management Co., Ltd.	Taipei Corporate Governance Forum of 8TH Term	3	Taiwan Stock Exchange
	Supervisor	Shan-Hui Chang	Head of EnWise CPAs & Co., Kaohsiung Location	Banking compliance officers' training seminar session	6	Bank of Kaohsiung

3.3.10 Implementation Status of the Internal Control System

A. Declaration Enforcement of the Internal Control System

Bank of Kaohsiung
Declaration Enforcement of the Internal Control System
Attn : Financial Supervisory Commission

Feb. 26, 2013

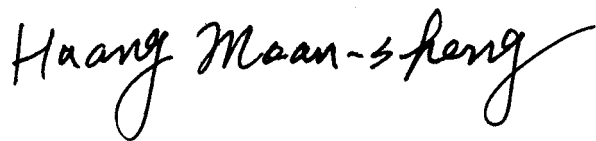
We, the Undersigned, hereby on behalf of Bank of Kaohsiung Co., Ltd. declared that during the period beginning Jan. 1, 2012 until Dec. 31, 2012, we did faithfully build the internal control systems and enforce risk control in accordance with "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries". Further through detached and independent Audit Department, we conducted audit with audit reports duly submitted to the board of directors and supervisors on a periodic basis. We evaluated the effectiveness of its Internal Control System in accordance with the Guidelines for the Establishment of the Internal Control System by Public Companies (the Guidelines) set forth by the Securities and Futures Commission of the Financial Supervisory Commission. Through prudent assessment, all units of the Bank did faithfully enforce the internal control and legal compliance excepte those events listed on the attached table. The Statement of the Internal Control System will be a prominent feature of our annual report and prospectus, and will be released to the public. Should any statement herein involve forgery, concealment or any other illegality, Articles 20, 32, 171 and 174 of the "Security and Exchange Act" shall apply.

Declarants

Chairman



President



Chief Auditor



The Head Office's Legal Compliance Head



(The content of the report is in conformity with the original declaration)



Appendix: Improving Plan and Strengthening Item for Internal Control System of Bank Of Kaohsiung Co., Ltd.

Base on Dec. 31, 2012

Strengthening Item	Improvement Measures	Time Scheduled to Complete the Improvement.
<p>1. Former banking staff of the Bank, Chi O O, embezzled the deposits and fees of the customer for personal purposes, which is a violation against Article 45-1-(1) of the Banking Act. The Financial Supervisory Commission issued an executive order on June 29, 2012 for a fine amounting to NT\$3 million and the discharge of Chi from the bank pursuant to Article 129-7 and Article 61-1-(1)-iii of the Banking Act.</p>	<p>1. The Bank has undertaken corrective action specified as follows: (a) fortify computer control in fee collection procedure with proper check and control by computer. (b) Enhance reconciliation management to high risk transactions (offsetting and termination of certificate of deposits before maturity). (c) Set up the "private properties parking area" for reinforcing the management of the telling zone. (d) Intensify the control over the delivery of payment exceeding the teller's authorization. (e) Intensify the review and control procedure of the use of supervisor card.</p> <p>2. The Bank has already incorporated the aforementioned corrective actions as items of internal audit and self-inspection, and will continue the monitoring of the implementation.</p>	<p>The Bank already reviewed and improved, and included into the internal audit for follow-up.</p>
<p>2. Former banking staff of the Bank, Huang O O alleged use of counterfeit (forged) identification documents, information on incomes, and other documents in applying for consumer loans and mortgage loans through fraudulent means have been under the investigation of the police and public prosecutor.</p>	<p>1. The Bank has responded to the shortcomings as cited, and reinforced the related internal control procedures. Summary is follows: (a) the addition of the "important notice of opening an account not over-the-counter" for controlling the opening of accounts outside the branches. (b) Revising the "Important Notice to the Processing of Consumer Loans", and the addition of "Important Notice to Processing Loans Secured by Real Properties" to strengthen the credit information and post-approval management. (c) Amending the "Account Managers Operation Procedure" in fortifying the segregation of duties for checks and balances, (d) Intensify the control of the E-loan system, and (e) Reinforce the procedure for the control of loan account files and collaterals kit.</p> <p>2. The Bank has incorporated the status of the aforementioned corrective action into internal audit and self-inspection for continued monitoring</p>	<p>The Bank already reviewed and improved, and included into the internal audit for follow-up.</p>
<p>3. The member of the "Non- Performing Loans Supervisory Team" and the "Loan Review Committee" of the Bank is highly overlapped, and the responsibility of the negligence in properly writing off bad debts has not been properly reviewed. A study on the proper functioning and the independence of the organization of the Head Office is necessary.</p>	<p>1. The Bank has responded by taking proper corrective action by adjusting the member of the "Non-Performing Loans Supervisory Team" and the "Loan Review Committee" of the Bank thereby only the vice presidents and the Head of the Risk Management Division hold membership of the team and the committee at the same time. The overlapping membership has been substantially reduced. In addition, the "Principle of Reviewing Negligence in Bad Debts" has been established for the non-performing loans supervisory team meeting under which the guideline for concrete action for the review of bad debts has been explicitly stated.</p> <p>2. This case was reported to the Board of Directors of the Bank for discussion and resolution on Feb. 23, 2012 and properly implemented.</p>	<p>Corrective action has been taken and reviewed by the competent authority on Apr. 27, 2012 with record.</p>

B. Independent Auditor's Report on Internal Control System

Crowe Horwath (TW) CPAs
Member Crowe Horwath International

Bank of Kaohsiung Co., Ltd.
Independent Auditor's Report

12F, 21 Linshen 2nd Road,
Kaohsiung, Taiwan R. O. C.
TEL:(07)3312133
FAX:(07)3331710

Mar. 28, 2013

To: The Board of Directors of the Bank of Kaohsiung Co., Ltd.

We have audited the accompanying financial statements of Bank of Kaohsiung Co., Ltd. As of December 31, 2012 subject to generally accepted auditing standards. We have also examined the internal audit design and execution for business operation in FY 2012, the compliance with regulatory system, the appropriateness of allowance for credit loss, and the accuracy of statements and data filed with the competent authority. It is the responsibility of the Board of Directors to supervise the management in establishing and maintaining a proper Internal Control System, while our responsibility is to express opinions and issue a report on the Internal Control System based on our audits.

We conduct our audits subject to the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries". that is published by the Financial Supervisory Commission. The Measures require that we exercise the necessary inspection procedure including evaluating the controlled environment of the bank, major business risk, the nature of accounting and managing records and the design of Internal Control System; also, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We believe that our audits provide a reasonable basis for our opinion on the effectiveness of the Internal Control System.

Except for the potential improvements recommended for the findings in the report, in our opinion, based on our audits, the Internal Control System, the execution of regulatory requirements, the appropriateness of allowance for credit loss, and the accuracy of statements and data filed with the competent authority of the Bank of Kaohsiung are with a proper control mechanism installed and with an effective design and execution maintained as of December 31, 2012

The audit report is issued to help the Board of Directors supervise the management of the Bank in improving internal control and for the reference of the bank component authority in extraordinary management.

Crowe Horwath (TW) CPAs

CPA : Shu-Man Tsai

Tsai Shu Man

CPA : Ling-Wen Huang

HUANG LING WEN

(The content of the report is in conformity with the audit report)



3.3.11 Penalty Received for Unlawful Practices Over the Past Two Years, and Corrective Action Taken Against Major Defects

A. Indictment by Prosecutors Against the Responsible Person or Staff Members because of a Crime Committed on Duty: None.

B. Penalty for Violation of Acts:

1. The former clerk, Tseng ○○, was suspected of misappropriating customers' deposits

i. Penalty:

The Bank's former clerk, Tseng ○○ during the section chief of Credit Management Dept, and misappropriated customers' deposits, therefore, was held violating Paragraph 1 of Article 45-1 of the Banking Act. FSC fined the Bank NT\$2,000 thousand according to the subparagraph 7 of Article 129 of the same Act, and ordered the Bank to dismiss Tseng according to Paragraph 1.3 of Article 61-1 of the same Act, on January 12, 2012.

ii. major defects:

The Bank's former clerk, Tseng ○○, kept customers' passbooks and signets, withdrew fund on behalf of customers, and misappropriated customers' deposits, The business unit has not confirmed the agency relationship with the client before allowing bank teller Tseng to withdraw the clients' funds. Examples of deficiencies are as follows: Even in cases where the personal seal imprints did not match those in the bank's records, the bank still allowed wire transfers; the supervisors did not perform a detailed and exact review of the vouchers.

iii. Improvement:

(i) The Bank has notified related parties in writing that if specific banking personnel are too close to the customers beyond usual transactions, or have acted on behalf of the customers in making withdrawal and deposits without authorization, the parties should report to the account holders and refer the incident to proper internal procedure. In processing deposits and fund transfers, the relevant banking units shall confirm the authorized signature/seal and the important items of the vouchers for accuracy.

(ii) The Bank has defined the "Instructions to Handle Passbooks and signets Left by Customers" to govern the passbooks, signets and withdrawal slips left by customers, and also established a reporting system dedicated to report staffs' extraordinary circumstances. Meanwhile, the Bank strictly prohibited its staff from engaging in any monetary transactions with customers or keeping passbooks and signets or processing withdrawal of fund on behalf of customers privately. If any staff was found failing to comply with said requirements, the Bank would impose severe punishment.

(iii) Further, the Bank has defined the internal random check mechanism towards the said matters, and included the matters into the internal audit procedures. Also the Bank would conduct self-assessment on a monthly basis.

2. The Bank's Tatze Branch was held violating Article 12-1 of the Banking Act on private house loans cases

i. Penalty and major defects:

On private house loans cases, the Bank's Tatze Branch still required security from the co-issuers of promissory note, even if sufficient security has been furnished. Therefore, the bank was held violating Article 12-1 of the Banking Act and the requirements referred to FSC's letter under Ching-Kuan-Ying (2) Zi No. 09700112042 dated May 12, 2008. FSC fined the Bank NT\$500 thousand according to Article 132 of the Banking Act on February 9, 2012.

ii. Improvement :

(i) The Bank has notified all brandes in writing forms several times to ensure their compliance with Article 12-1 of the Banking Act, also organized credit defects discussion and training sessions to remind all

- branches. Moreover, the cases have been added to the compliance implementation plan 2012 for guidance and testing, and would be monitor by internal Audit Office to follow up the compliance.
- (ii) For the defects, the Bank had asked all branches to perform overall inspection, and the internal Audit team to conduct on-site random check. According to the check result, similar cases were no longer existed.
3. The embezzlement of customers' deposits and fees by former banking staff Chi O O:
- i. Penalty:
- Former banking staff of the Bank, Chi O O, embezzled the deposits and fees of the customer for personal purposes, which is a violation against Article 45-1-(1) of the Banking Act. The Financial Supervisory Commission issued an executive order on June 29, 2012 for a fine amounting to NT\$3 million and the discharge of Chi from the bank pursuant to Article 129-7 and Article 61-1-(1)-iii of the Banking Act.
- ii. major defects:
- (i) Chi embezzled customer deposits by voiding the issued certificate of deposit or filling in the time deposit list by hand without supervisor's approval. Regarding the replacement of passbooks, both of the new issued passbooks and passbook register have not been signed by related personnel. In addition, regarding the payment exceeding the teller's authorization, the head teller failed to deliver payment to the customer in the required procedure.
- (ii) In the fee collection procedure the teller receives cash and registers the account at the same time, and also kept the stamp for approval of receipt and payment, which fails to implement internal control.
- iii. Improvement:
- (i) The Bank has undertaken corrective action specified as follows: (a) fortify computer control in fee collection procedure with proper check and balance (two-line payment receipt system). (b) Enhance the control of the registration of the use of passbooks and account review in high risk transactions (offsetting and termination of certificate of deposits before maturity). (c) Set up the "private properties parking area" for reinforcing the management of the telling zone. (d) Intensify the control over the delivery of payment exceeding the teller's authorization. (e) Intensify the review and control procedure of the use of supervisor card.
- (ii) The Bank has already incorporated the aforementioned corrective actions as items of internal audit and self-inspection, and will continue the monitoring of the implementation.
4. Former banking staff of the Bank, Huang O O Use the name of relatives in vain for making loans
- i. Penalty:
- Former banking staff Huang of the Bank made loan from the Bank by using the name of relatives, which is in violation of Article 45-1-(1) of the Banking Act. Financial Supervisory Commission issued an executive order on February 26, 2013 for a fine amounting to NT\$5 million and the discharge of Huang from the Bank pursuant to Article 129-7 and Article 61-1-(1)-iii of the Banking Act.
- ii. major defects:
- (i) Huang used the name of a relative for opening a current saving deposit account, which was a shortcoming in the review of opening new account.
- (ii) Huang used forged documents to apply for consumer loans and a mortgage loan. The supervisor failed to properly cross-check the incumbency certification and income data of the borrower with the system of JCIS, and failed to conduct on-site inspection and appraisal, check the lien document, and register it in the computer system.
- (iii) During credit verifying and credit granting operations, supervisors and banking staffs failed to properly keep the stamp, approval of loan and credit information check were conducted by the same person,



missing credit files, the release entitlement documents, such as lien documents, were not approved by supervisor.

iii. Improvement:

- (i) The Bank has responded to the shortcomings as cited, and reinforced the related internal control procedures. Summary is follows: (a) the addition of the “important notice of opening an account not over-the-counter” for controlling the opening of accounts outside the branches. (b) Revising the “Important Notice to the Processing of Consumer Loans”, and the addition of “Important Notice to Processing Loans Secured by Real Properties” to strengthen the credit information and post-approval management. (c) Amending the “Account Managers Operation Procedure” in fortifying the segregation of duties for checks and balances, (d) Intensify the control of the E-loan system, and (e) Reinforce the procedure for the control of loan account files and collaterals kit, and reiterated the management procedure for the control of stamps and the personal seals of the banking staffs.
- (ii) The Bank has incorporated the status of the aforementioned corrective action into internal audit and self-inspection for continued monitoring

C. Detects Rectification Imposed by the Financial Supervisory Commission, Executive Yuan : None.

D. Penalty for Violation of the Article 61-1 Banking Law :

1. The former clerk, Tsai ○○, was found misappropriating collections

i. Penalty and major defects :

The Bank’s former clerk, Tsai ○○, was found misappropriated the collections of labor insurance premium, health insurance premium and labor pension. He collected from customers and delayed the record of such collections. The collection operation appears to be defective. FSC held according to Paragraph 1 of Article 61-1 of the Banking Act that the Bank “should make correction” on August 4, 2011.

ii. Improvement :

- (i) The Bank has established control on the accounting of such collections as labor insurance premium, health insurance premium and labor pension fund via computer system. All branches would record into computer immediately upon receipt of such accounts, and print out payment certificates. The Bank has published such policy in front of each counter to inform customers to claim the certificate, and order operation executive officers to supervise this operation. (As of Dec. 24, 2012, the Bank control in fee collection procedure with two-line payment receipt system, to fulfill internal control.)
- (ii) The implementation of said operating procedure has been included into the internal audit and self-assessment.

2. The former clerk, Tseng ○○, was suspected of misappropriating customers’ deposits. Please see Paragraph B.1 herein.

3. The former clerk Chi O O, was embezzled of customers’ deposits and fees. Please see Paragraph B. 3 herein.

4. The former clerk, Huang O O Use the name of relatives in vain for making loans. Please see Paragraph B.4 herein.

E. The Major Occasional Frauds, Contingencies (Fraud, Theft, Embezzlement, and Robbery, False Transaction, Forged Document and Marketable Securities, Kick Back, Natural Disaster Loss, Loss from External Factors, Hacker Attack, Data Theft, and Disclosure of Confidential Information and Customer Data and Such Major Incidents) or Security Accidents Resulting from the Failure to Practice Security Works, or the Incidents Which Resulted in Loss Over NT\$50 Million Over the Past Two Years:

1. This item is not applicable to the Bank in 2011. The corruption of the banking staff and the nature and amount involved in major incidental offenses are shown below.

2012.1.1.~2012.12.31

unit : NTD thousand

No	Case Nature	Up to Dec. 31, 2012 the balance of corruption or unauthorized withdrawal	Up to Dec. 31, 2012 the balance of recognized loss or recognized expenses.	
			Amount	Description
1	The former clerk, Tseng ○○, was suspected of misappropriating customers' deposits (misappropriating customers' deposits)	3,568	1,833	A fine of NT\$2 million was imposed by the Financial Supervisory Commission on Jan. 30, 2012, and was later offset by the NT\$167,000 deposit of Tseng. The actual loss was NT\$1.833 million. [The content of the event is the same as in B. 1] in preceding paragraphs.
2	The former clerk Chi O O, was embezzled of customers' deposits and fees. (misappropriating customers' deposits and fees)	3,013	3,000	The Bank Paid a fine to the Financial Supervisory Commission. [The content of the event is the same as in B. 3] in preceding paragraphs.
3	The former clerk, Huang O O Use the name of relatives in vain for making loans. (fraud, fabricated transactions, forged documents)	51,514	25,994	Amount of NT\$51.514 million was unpaid for unauthorized withdrawal up to Dec. 31, 2012. The Bank has recognized loss for bad debts amounting to NT\$25.994 million according to the amount of fine imposed by FSC and the possibility of recovery of embezzled funds. The balance is stated in E. 2.
Total		58,095	30,827	

2. Notes to the corruption cases exceeding NT\$50 million:

- i. The event that the former clerk, Huang O O used the name of relatives in vain for making loans was discovered in Sep. 2012; at the time, the total loans involved in the fraud amounted to NT\$59.906 million. The Bank has recovered NT\$8.811 million from Huang. There was still an outstanding amount of NT\$51.514 million up to Dec. 31, 2012. The Bank has appealed to judicial procedure for claim.
- ii. In this case, FSC has imposed a fine of NT\$5 million. The amount in full has been recognized for loss in bad debts. The Bank has also assessed the possibility of the recovery of the fund, and the amount of NT\$20.994 million has been recognized for bad debts. As such, the total amount of NT\$25.994 million has been recognized for bad debts up to Dec. 31, 2012. However, the actual loss from this incident depends on the insurance compensation and subsequent claim situation.
- iii. The rest, Please see Paragraph B.4 herein.

F. Disclosure of Other Events as Required by the Financial Supervisory Commission, Executive Yuan : None.

G. Others : None.

3.3.12 Important Decisions Resolved in the Regular Shareholders' Meeting, Regular Board of Director's Meeting and Special Meeting as in FY 2012 and up to March 2013



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A. Important Resolutions in the Regular Shareholders' Meeting and the Execution of the Resolutions Reached :

The Resolutions	The Execution of the Resolutions
A. Discuss compensation on the deficit of FY 2011.	The compensation deficit of FY 2011, have been completed subject to the resolution.

B. Important Resolutions in the Regular Board of Director's Meeting and Extraordinary Meeting

Date	The Resolutions
2012.3.29	The Bank's financial statements and consolidated financial statements of the Bank and its subsidiaries for the year ended Dec. 31, 2011, and audit certified by Horwath Chien Hsing were ratified.
2012.4.26	The Bank's compensation proposal on deficit of 2011 (for the year ended on Dec. 31, 2011) was ratified.
2012.6.21	Participating transfer investment in "One-Card Service Bills Finance Co., Limited (tentative)" amounting to NT\$80 million was ratified.
2012.12.20	To engage Mr.Huang Moan-Sheng for the Bank'President.

3.3.13 The Documented Disagreement or Written Statement of the Directors or Supervisors Against the Important Resolutions Reached by the Board of Directors in FY 2012 and up to Mar. 2013 :

Date	The Important Resolutions	The Summary of Objection
1012.12.20	Approval of AUO: mid-term secured loan (syndicated loans) amounting to NT\$133.32 million, and application for changing in other terms and conditions of loans.	The first priority is NT\$55 billion and will become NT\$20 billion or NT\$30 billion after the release of syndicated loans. The land of the customer is acquired from leasing and the lien over the facility includes machinery. Before the change, the amount of NT\$100 million can 100% satisfies the right of lien. The amount is still NT\$100 million after the change, but could we still 100% satisfy the right of lien.

3.3.14 Summarization of Resignation and Dismissal of Parties (Including Directors, Supervisors, President, Financial Supervisor, Accounting Supervisor and Internal Audit Supervisor) Related to the Bank in 2012 and up to Mar. 2013 :

Position	Name	Date of Employment	Date of Dismissal	Reason for Resignation or Dismissal
Chairman	Hsian Chung Tsai	2011.06.22	2012.09.17	Resigned
President	Jeff Chen	2012.04.23	2012.12.31	Resigned
Chief Accountant	Ming-Hung Wu	2010.03.01	2012.07.01	rotation of jobs

3.4 Information Regarding Fee

Range of Information Regarding Fee

2012.1.1 – 2012.12.31

The Name of the Office of CPA	The Name of the CPA		Audit Period	Remark
Crowe Horwath (TW) CPAs	Shu-Man Tsai	Ling-Wen Huang	2012.1.1~2012.12.31	None

Unit : NT\$ Thousand

Range of Amount	Audit Fee	Non-Audit Fee	Amount
under 2 million	None	1,130	1,130
2 million (included) ~ 4 million	2,190	None	2,190
4 million (included) ~ 6 million	None	None	None
6 million (included) ~8 million	None	None	None
8 million (included) ~ 10 million	None	None	None
over 10 million	None	None	None

Unit : NT\$ Thousand

The Name of the Office of CPA	The Name of the CPA	Audit Fee	Non-Audit Fee					CPA Audit Period	Remark
			System Design	Business Registration	Human Resources	Others	Sub-Total		
Crowe Horwath (TW) CPAs	Shu-Man Tsai	2,190	0	0	0	330 (Note)	330	2012. 1.1~2012.12.31	None
	Ling-Wen Huang								
Deloitte & Touche	Hui-Yin Chiu	0	0	0	0	800 (Note)	800	2012.1.1~2012.12.31	Remuneration for IFRS adoption

Note : Stated as "Non-Audit Fee – Others", NT\$1,130 thousand, which refers to the commissioned CPA's certification fee of offset against bad debt, and remuneration for IFRS adoption and review.



3.5 Alternation of CPA

3.5.1 About the Former CPA

Alternated date	None		
Alternated reason	None		
Please specify whether the appointment is terminated or unaccepted by the appointer or CPA.	Related parties		CPA
	Situation	CPA	Appointer
	Voluntary termination of appointment	None	None
	No further acceptance (continuation) of appointment		None
Opinion and reason for any audit report other than unqualified opinion in the last two years	None		
Any disagreement with the Bank	Yes	—	Accounting principles or practices
		—	Disclosure of financial statement
		—	Scope or steps of audit
		—	Others
	None	✓	
	Remarks	—	
Other disclosures	None		

3.5.2 About the Successive CPA

The name of the office of CPA	None
The name of the CPA	None
Date of appointment	None
Before the successive CPA is appointed, if it inquired such accountant about the accounting treatment method of specific transactions or the applicable accounting principles and his / her possible opinion on the financial report, it shall disclose the matters it inquired about and the result thereof	None
The successive CPA's written opinion in connection with the discrepancy of opinion between it and the former CPA	None

3.5.3 The Former CPA's Written Response to the Matters Referred to in Article 10.5(1) and Article 10.5(2). (iii) of the "Criteria Governing Information to be Published in Annual Reports for Bank" : None.

3.6 Chairman, President or Managers Responsible for Financial or Accounting Business Assume Positions in the Office of CPA Certified the Bank's Financial Statement or in the Affiliates Thereof in the Latest Year: None.

3.7 Changes in Shareholding of Directors, Supervisors, Managers and Persons who Must Declare their Shares Pursuant to Article 11 of “Regulations Governing a Same Person or Same Concerned Party Holding the Issued Shares with Voting Rights achieve a Particular Ratio of a bank.” for FY 2012 and up to Mar. 2013

3.7.1 Change of Shares

Title	Name	2012.1.1-2012.12.31		2013.1.1-2013.3.31	
		Change in Shareholding	Increase (decrease) on Pledged Shares	Change in Shareholding	Increase (decrease) on Pledged Shares
Director (Major Shareholder)	Kaohsiung City Government	0	0	0	0
Independent Director and Managing Director	Wen-Yuan Lin	0	0	0	0
Independent Director	Mei-Yueh Ho	0	0	0	0
Independent Director	Tzen-Ping Su	0	0	0	0
Director	Jueifang P. Chen	(19,000)	0	0	0
Director	Heng Fong Asset Management co., Ltd.	0	0	0	0
Supervisor	Jinn Her Enterprise Co., Ltd.	0	0	0	0
Supervisor	Yu-Hui Su	0	0	0	0
Supervisor	Shan-Hui Chang	0	0	0	0
President	Jeff Chen	0	0	0	0
Exec.Vice President	Chun-Ching Ko	(354)	0	0	0
Exec.Vice President	Yi-Jong Liou	0	0	0	0
Chief Auditor	Chung-Chen Lin	0	0	0	0
Chief Secretary	Tsui-Mei Hsu	0	0	0	0
Business Management Dept., Vice President and General Manager	Anna Hsu	0	0	0	0
Risk Management Dept., and Research & Development Dept., Vice President and General Manager	Johnson Huang	0	0	0	0
Credit Management Dept., Vice President and General Manager	Ting-Lien Lin	0	0	0	0
Executive Administration Dept., and Human Resources Dept., Vice President and General Manager	Hwa-Jen Lee	0	0	0	0
Legal Affair Dept., Vice President and General Manager	Te-Chin Chou	0	0	0	0
Treasury Dept., Vice President and General Manager and OBU, General Manager	J.C. Shou-Jen Chen	0	0	0	0
Information Technology Dept., Vice President and General Manager	I-Fen Chen	0	0	0	0
Municipal Treasury Dept., General Manager	Mei-Ling Chen	0	0	0	0
Business Dept., General Manager	Jin-Ann Wang	0	0	0	0
International Banking Dept., General Manager	Shuen-Hua Chen	0	0	0	0
Trust Dept., General Manager	Shiow-Jen Tsai	0	0	0	0
Wealth Management Dept., General Manager	Jung-Tai Chang	0	0	0	0
Gangshan Benjhou Branch, General Manager	Ming-Hung Wu	0	0	0	0
Feng Shan Branch, General Manager	Chung-Hui Wang	388	0	0	0
Chien Chin Branch, General Manager	Yi-Chen Yu	0	0	0	0
San Min Branch, General Manager	Yen-Ching Hsien	0	0	0	0
Tso Ying Branch, General Manager	Mei-Chu Chang	0	0	0	0



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Title	Name	2012.1.1-2012.12.31		2013.1.1-2013.3.31	
		Change in Shareholding	Increase (decrease) on Pledged Shares	Change in Shareholding	Increase (decrease) on Pledged Shares
Hsiao Kang Branch, General Manager	Jin-Biau Tsai	0	0	0	0
Tao Yuan Branch, General Manager	Chuan- Pin Kao	0	0	0	0
Chien Chen Branch, General Manager	Chi-Jen Lin	0	0	0	0
Yu Chang Branch, General Manager	Ming-Fu Hsieh	0	0	0	0
Wan Nei Branch, General Manager	Yuan-Chin Shiang	0	0	0	0
Pin Tung Branch, General Manager	Shui-Hsing Kuo	0	0	0	0
Kwei Lin Branch, General Manager	Shiow-Lien Su	0	0	0	0
Liu Ho Branch, General Manager	Ju-Chen Lu	0	0	0	0
Nan Tze Branch, General Manager	Wei-Min Wu	0	0	0	0
Ku Shan Branch, General Manager	Trey-Shin Lee	0	0	0	0
Chien Kuo Branch, General Manager	Hsien-Kuo Chen	0	0	0	0
Chiu Ju Branch, General Manager	Shiu-Hui Liu	0	0	0	0
Yen Cheng Mini Branch, General Manager	Huey-Fung Lin	0	0	0	0
Tsao Ya Branch, General Manager	Ching-Tsan Chen	0	0	0	0
Banciao Branch, General Manager	Te-Ching Wan	0	0	0	0
Tai Nan Branch, General Manager	Ming-Ta Yang	0	0	0	0
San To Branch, General Manager	Hueng-Fen Yen	0	0	0	0
Da Fa Branch, General Manager	Wen-Hau Sher	0	0	0	0
Ta Chih Branch, General Manager	Don Huang	0	0	0	0
Tai Chung Branch, General Manager	Yeh-Shing Wang	0	0	0	0
Chi Chin Mini Branch, General Manager	Fang-Lan Lin	0	0	0	0
Nan Kaohsiung Branch, General Manager	Tzu-Dan Yen	0	0	0	0
Tachang Branch, General Manager	Wen-Lueh Su	0	0	0	0
Hsin Chu Branch, General Manager	Hsien- Chung Liao	0	0	0	0
Shih Fu Branch, General Manager	Chiu-Chin Huang	0	0	0	0
Chung Ho Branch, General Manager	Chuck Chen	0	0	0	0
Taipei Branch General Manager.	Aaron Ting	0	0	0	0
Min Cheng Branch, General Manager	Li-Hwa Chen	0	0	0	0
Pei Kaohsiung Branch, General Manager	Pi-Jung Ko	0	0	0	0
Po Ai Branch, Acting General Manager	Wei-Lin Hsu	0	0	0	0

Note: Major shareholder, who owns more than 1% of the Bank's outstanding shares.

3.7.2 Information of Share Transfer

Name	Reason of Share Transfer	Date of Transaction	The Counterparties of Share Transfer	Relation of the Transaction Counterparties and Directors, Supervisors of Bank and Persons who Must Declare their Shares Pursuant to Article 11 of "Regulations Governing a Same Person or Same Concerned Party Holding the Issued Shares with Voting Rights achieve a Particular Ratio of a bank."	Number	Price
None	None	None	None	None	None	None

Note: The counterparties of share transfer in FY 2012 and up to the Mar. 2013 of this report are not related parties.

3.7.3 Information of Pledged Shares

Name	Reason of Pledged Shares	Date of Change	The Counterparties of Share Transfer	Relation of the Transaction Counterparties and Directors, Supervisors of Bank and Persons who Must Declare their Shares Pursuant to Article 11 of "Regulations Governing a Same Person or Same Concerned Party Holding the Issued Shares with Voting Rights achieve a Particular Ratio of a bank."	Number	Amount on Pledged Shares
None	None	None	None	None	None	None

Note: There is no case of share pledges in FY 2012 and up to the Mar. 2013.



3.8 Information Disclosing the Relationship Between Any of the Bank's Top Ten Shareholders as Defined

2013.4.21

Name	Shareholding		Spouse & Minor Shareholding		Shares Held through Other Parties		Names and Relationship of Any of the Top Ten Shareholders being a Related Party as Defined or spouse or relatives within 2nd degree of relationship	
	Shares	%	Shares	%	Shares	%	Name	Relationship
Kaohsiung City Government	320,094,217	45.28	0	0	0	0	None	None
Toong-Min Chen (Representative of Kaohsiung City Government)	0	0	0	0	0	0	None	None
Ruey-Tsang Lee (Representative of Kaohsiung City Government)	0	0	0	0	0	0	None	None
Li- Ming Hsu (Representative of Kaohsiung City Government)	0	0	0	0	0	0	None	None
Richard Lee (Representative of Kaohsiung City Government)	0	0	0	0	0	0	None	None
Yuan- Pei Chou (Representative of Kaohsiung City Government)	0	0	0	0	0	0	None	None
Jueifang P. Chen (Representative of Kaohsiung City Government)	189,764	0.03	50,000	0.01	0	0	None	None
Chien-Tsai Chao (Representative of Kaohsiung City Government)	0	0	0	0	0	0	None	None
Lai-Chuan Chang (Representative of Kaohsiung City Government)	0	0	0	0	0	0	None	None
Jinn Her Enterprise Co., Ltd.	23,521,348	3.33	0	0	0	0	Yung-Yu Tsai	A person in charge
Chun-Chin Shih	18,704,666	2.65	15,321,545	2.17	0	0	Mei-Yuan Yu	Spouse
Mei-Yuan Yu	15,321,545	2.17	18,704,666	2.65	0	0	Chun-Chin Shih	Spouse
Fubon Life Insurance Co., Ltd.	10,000,000	1.41	0	0	0	0	None	None
Neng Shuai Investment Co. Ltd.	6,560,000	0.93	0	0	0	0	None	None
Global Life Insurance Co., Ltd.	6,485,000	0.92	0	0	0	0	None	None
Yung-Yu Tsai	6,224,376	0.88	3,309,355	0.47	0	0	Jinn Her Enterprise Co., Ltd.	A person in charge
City Bank Taiwan was commissioned and management investor account of Dimension emerging market estimate fund	6,134,397	0.87	0	0	0	0	None	None
Chien-Fu Kan	5,766,000	0.82	0	0	0	0	None	None

3.9 The Shareholding and Syndicated Shareholding of an Identical Invested Business Held by the Bank, Directors, Supervisors, President, Exec. Vice Presidents, Heads of Departments and Branches and the Bank Directly or Indirectly Governed Business

2013.3.31

Name	The Bank's Investments		Investments of Directors, Supervisors, President, Exec. Vice Presidents, Heads of Departments and Branches and the Bank Directly or Indirectly Governed Business		Syndicated Investments	
	Shares	%	Shares	%	Shares	%
Taipei Forex Inc.	700,000	3.53179	—	—	700,000	3.53178
Taiwan Futures Exchange Corporation	835,758	0.30000	—	—	835,758	0.30000
Taiwan Finance Corporation	51,616,500	10.00000	—	—	51,616,500	10.00000
Waterland Securities Co.,Ltd.	42,899,331	4.93126	—	—	42,899,331	4.93126
Taiwan Asset Management Corporation	10,000,000	0.56754	—	—	10,000,000	0.56754
Taiwan Financial Asset Services Co.,Ltd.	5,000,000	2.94118	—	—	5,000,000	2.94118
Kaohsiung Rapid Transit Corporation	5,000,000	0.50000	—	—	5,000,000	0.50000
Kaohsiung Bank General Insurance Agency Co.,Ltd.	500,000	100.00000	—	—	500,000	100.00000
Kaohsiung Bank Insurance Agency Co.,Ltd.	300,000	100.00000	—	—	300,000	100.00000
Financial Information Services Co.,Ltd.	5,118,750	1.13750	—	—	5,118,750	1.13750
Taiwan Depository & Clearing Corporation	266,290	0.08298	—	—	266,290	0.08298
Sunny Asset Management Corporation	347	0.00578	—	—	347	0.00578
Taiwan High Speed Rail Corp.	10,800,000	0.10254	—	—	10,800,000	0.10254



4.1 Capital and Shares

4.1.1 Source of Capital

A. Issued Shares

Unit : NT\$

Year / Month / Date	Par Value	Authorized Capital		Paid-in Capital		Remark	
		Shares	Amount	Shares	Amount	Sources of Capital	Others
May 2013	—	1,500,000,000	15,000,000,000	706,947,579	7,069,475,790	Initial capital and capital increase by cash, by capital reserve, by special reserve, and by earnings in the past years.	—

Note: Our bank did not offset any source of capital by monetary claims and skills.

B. Capital Increase Information

Unit : NT\$

FY	Authorized Capital		Remark	Authorized by the Competent Authority
	Authorized Capital	Paid-in Capital		
1983	—	—	Initial capital	MOF,Tai-Tsai-Rong-No.18127 (Jul. 8, 1981)
	450,000,000	—		
1988	—	—	Capital increase NT\$200 million by cash	MOF,Tai-Tsai-Rong-No.770059046 (Feb. 26, 1988)
	650,000,000	—		
1989	—	—	Capital increase NT\$200 million by cash	MOF,Tai-Tsai-Rong-No.770430291 (Nov. 23, 1988)
	850,000,000	—		
1990	—	—	Capital increase NT\$200 million by cash	MOF,Tai-Tsai-Rong-No.800078016 (Mar. 2, 1991)
	1,050,000,000	—		
1994	—	—	1.Capital increase NT\$190 million by special reserve	MOF,Tai-Tsai-Rong-No.84707685 (Mar. 27, 1995)
	1,534,740,000	—	2.Capital increase NT\$294 million and 740 thousand by cash	
1996	—	—	Capital increase NT\$618 million and 339.5 thousand by cash	MOF,Tai-Tsai-Rong-No.84377510 (Sep. 6, 1995)
	2,153,079,500	—		
1997 (1997.06.04)	—	—	Capital increase NT\$214 million and 888.76 thousand by cash	MOF,Tai-Tsai-Rong-No.86056443 (Mar. 11, 1997)
	2,367,968,260	—		
1998 (1997.10.09)	—	—	Capital increase NT\$1.5 billion by cash (Public solicit)	MOF,Tai-Tsai-Rong-No.86164514 (Jun. 10, 1997)
	3,867,968,260	—		
1999 (1999.03.01)	—	—	Capital increase NT\$618 million and 874.92 thousand by special reserve	MOF,Tai-Tsai-Rong-No.87419912 (Dec. 30, 1998)
	4,486,843,180	—		
2002 (2002.08.19)	—	—	Capital increase NT\$89 million and 736.86 thousand by earnings	MOF,Tai-Tsai-Rong-No-0910030462 (Jul. 10, 2002)
	4,576,580,040	—		
2004 (2004.08.16)	—	—	Capital increase NT\$457 million and 658 thousand by capital reserve	MOF, Tai-Tsai-Rong-(2)-No.0930020109 (Jun. 28, 2004)
	5,034,238,040	—		
2005 (2005.06.23)	15,000,000,000	—	Register authorized capital	FSC, Jin-Kuan-Yin-(2)-No.0948010949 (Jul. 27, 2005)
	5,034,238,040	—		
2008 (2008.8.26)	15,000,000,000	—	Capital increase NT\$223 million and 743.9 thousand by earnings	FSC, Jin-Kuan-Cheng-(1)-No.0970032868 (Jul. 9, 2008)
	5,257,981,950	—		
2011 (2011.08.07)	15,000,000,000	—	1.Capital increase NT\$78 million and 869.72 thousand by earning	FSC, Jin-Kuan-Cheng-(1)-No.1000031062 (Jul. 13, 2011)
	5,869,475,790	—	2.Capital increase NT\$525 million and 798.19 thousand by special reserve 3.Capital increase NT\$6 million and 825.93 thousand by employees' bonuses	
2011 (2011.10.26)	15,000,000,000	—	Capital increase NT\$1.2 billion by cash	FSC, Jin-Kuan-Cheng-(1)-No.1000040741 (Sep. 8, 2011)
	7,069,475,790	—		

C. Type of Stock

2013. 5

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Stocks	706,947,579	793,052,421	1,500,000,000	Listed on the TSE

4.1.2 Status of Shareholders

2013.4.21

Item	Government Agencies	Financial Institutions	Other Juridicial Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	5	4	46	22,915	75	23,045
Shareholding	320,421,841	23,669,667	46,041,909	283,118,840	33,695,322	706,947,579
Percentage	45.32	3.35	6.51	40.06	4.76	100.00

4.1.3 Shareholding Distribution Status

A. Common Shares (The Par Value for each share is NT\$10)

2013.4.21

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 – 999	8,050	1,758,629	0.25
1,000 – 5,000	8,514	23,360,430	3.30
5,001 – 10,000	2,362	16,408,110	2.32
10,001 – 15,000	1,448	17,725,010	2.51
15,001 – 20,000	608	10,682,994	1.51
20,001 – 30,000	734	17,802,426	2.52
30,001 – 50,000	529	20,593,338	2.91
50,001 – 100,000	388	26,670,028	3.77
100,001 – 200,000	200	27,864,082	3.94
200,001 – 400,000	110	30,391,614	4.30
400,001 – 600,000	37	17,759,086	2.51
600,001 – 800,000	21	14,620,839	2.07
800,001 – 1,000,000	7	6,234,637	0.88
Over 1,000,001	37	475,076,356	67.21
Total	23,045	706,947,579	100.00

B. Preferred Shares: None.

4.1.4 List of Major Shareholders

2013.4.21

Shareholders's Name	Shareholding	
	Shares	Percentage
Kaohsiung City Government	320,094,217	45.28
Jinn Her Enterprise Co., Ltd.	23,521,348	3.33
Chun-Chin Shih	18,704,666	2.65
Mei-Yuan Yu	15,321,545	2.17
Fubon Life Insurance Co., Ltd.	10,000,000	1.41
Neng Shuai Investment Co. Ltd.	6,560,000	0.93
Global Life Insurance Co., Ltd.	6,485,000	0.92
Yung-Yu Tsai	6,224,376	0.88
Citi Bank Taiwan was commissioned and management investor account of Dimension emerging market estimate fund	6,134,397	0.87
Chien-Fu Kan	5,766,000	0.82

Note : Major shareholder means who owns more than 1% of the Bank' s outstanding shares or is one of the top ten shareholders.

4.1.5 Market Price, Net Worth, Earnings, and Dividends Per Share for the Past Two Years

Unit : NT\$

Item		FY	2011	2012	2013.3.31
Market Price Per Share (Note 1)	Highest		17.00	10.15	9.93
	Lowest		8.18	7.91	9.13
	Average		12.00	8.87	9.54
Net Worth Per Share (Note 2)	Before Distribution		14.66	15.43	14.98
	After Distribution		14.66	—	—
Earnings Per Share	Weighted Average Shares		606,549,400	706,947,579	706,947,579
	Diluted Earnings Per Share		(0.71)	0.55	0.16
	Adjusted Diluted Earnings Per Share		(0.71)	—	—
Dividends Per Share	Cash Dividend		0	0.02	—
	Stock Dividends	Dividends from Retained Earnings	0	0.18	—
		Dividends from Capital Surplus	0	0	—
	Accumulated Undistributed Dividends		0	0	—
Return on Investment	Price / Earnings Ratio (Note 3)		(16.90)	16.13	—
	Price / Dividend Ratio (Note 4)		0	443.50	—
	Cash Dividend Yield Rate (%) (Note 5)		0	0.23	—

Note: 1. The highest and lowest market prices each year. The average market price each year is computed with trading value and volume of the corresponding year.

2. The computation is based on the total shares outstanding at the end of the year and approved appropriation in the subsequent Shareholders' Meeting.

3. Price / Earnings ratio = Average Market Price / Earnings per Share.

4. Price / Dividend ratio = Average Market Price / Cash dividends per Share.

5. Cash Dividend Yield Rate = Cash Dividend per Share / Average Market Price.

4.1.6 Dividend Policy and Implementation Status

- A. Dividend Policy : Please refer to page 106 for “Notes to Financial Statements 4.20 RETAINED EARNINGS”.
- B. The FY 2013 shareholders’ meeting has resolved to distribute dividends in the following order :
- The Bank’s expect to distribute a cash dividend of NT\$0.02, a stock dividend of NT\$0.18, total of NT\$0.20 per share to shareholders for FY 2012. Remuneration to directors and supervisors shall be distributed by way of cash, employees’ bonus shall be distributed by way of stock for raising the Bank’s capital.

4.1.7 The Impact of Stock Dividend Distribution Resolved by the 2013 Shareholders’ Meeting on the Bank’s Operating Performance and Earnings Per Share (EPS):

The 2013 shareholders’ meeting will resolve to distribute stock dividends total of NT\$ 127.25 million, which means that the stock dividend ratio is 1.8% (18 new shares to 1,000 existing shares). The EPS after stock dividend distribution will be NT\$ 0.54. Compared with the basic EPS NT\$0.55 , there will be no significant impact on the EPS. Stock dividend dictribution has no impact on the Bank’s operating performance yet.

4.1.8 Employees Bonus and Directors’ and Supervisors’ Remuneration

- A. Information relating to employee bonus and directors’ and supervisors’ remuneration in the Articles of Incorporation please refer to page 106 for “Notes to Financial Statements 4.20 RETAINED EARNINGS”.
- B. (1) Estimate foundation of employee bonus and directors’ and supervisors’ remuneration:
- This Bank’s management estimated employee bonus and remuneration to directors/supervisors pursuant to the Articles of Incorporation and the resolutions for distribution of employee bonus and remuneration to directors/supervisors of shareholders’ meeting of the previous years.
- (2) The accounting treatment of the discrepancy, if any, between the actual distributed amount of employees’ stock bonus and estimated figure thereof:
- The difference shall be identified as accounting change. The accounts will be adjusted in the same with resolution of shareholders’ meeting and stated as income for the current period.
- C. Profit distribution of year 2012 approved in Board of Directors meeting for employee bonus and directors’ and supervisors’ remuneration:
- (1) Recommended distribution of employee bonus and directors’ and supervisors’ remuneration:
- Employees bonus – in cash: NT\$ 0.
- Employees bonus – in stock: NT\$ 12,567,956.
- Directors’ and supervisors’ remuneration: NT\$ 3,141,989.
- (2) The amount distributed employees’ stock bonus, and the percentage to after-tax net income plus total employees’ bonus for FY 2012 is NT\$12,567,956 and 3.15% respectively.
- (3) Earnings per share after the distribution of employees’ bonus and remuneration to directors and supervisors for FY 2012: EPS NT\$0.55.
- D. Earnings distribution to employees’ bonus and remunerations to directors and supervisors for FY 2011 corresponded with the decision of the Board of Director.
- (1) Earnings distribution for employee bonus for FY 2011: None.
- (2) Remuneration to directors and supervisors appropriated from retained earnings for FY 2011 : None.

4.1.9 Buyback of Treasury Stock : None.

4.2 Financial Bonds, Preferred Stocks, Overseas Depository Receipts, Employees Stock Options Receipts, Merger and Acquisitions

4.2.1 Financial Bonds

Unit : NT\$

Item	Subordinate debt (1)
Date & No Approved by the Central Competent Authority	FSC, Jin-Kuan-Yin-(2)-No.09600178130 (May 08, 2007)
Date of Issuance	Jun. 12, 2007
Par	10 Million
Place of Issuance and Trade	Republic of China
Currency	New Taiwan Dollars
Price of Issuance	100%
Total Amount	1 Billion
Interest	Indicator Rate (Note) +0.40% Floating Interest Rate
Tenor	7 Years, Maturity Date : Jun. 12, 2014
Senior / Subordinate debt	Subordinate Debt
Guarantor	None
Trustee	None
Underwriter	Standard Chartered Bank, Taipei Branch
Certified Lawyers	None
Certified Public Accountants	None
Certification Institution	None
Repayment	Repayment in Lump Sum Upon Maturity
Outstanding Balance	1 Billion
Year 2006 Paid-in Capital	5 Billion 34.23 Million 8 Thousand and Forty
Year 2006 Total Stockholders' Equity	10.6 Billion 8.41 Million 2 Thousand 6 Hundred and Twenty Four
Performance	Normal
Redemption or Early Exercise Term	None
Convertible & Swap Term	None
Restricted Clause	None
Fund Utilization Plans	Corporate with Medium and Long Term Loans
Ratio of the Registered Value of Issue plus Outstanding Balance against the Net Value after Settlement of the Year previous to the Year of Issue (%)	13.20%
Whether Include Qualified Capital and the Corresponding Category	Tier 2
Credit Rating Agency, Date and Rating	None

Note : The indicator rate means 90-day NTD secondary commercial paper rate that appears on Reuters page 6165 for the fixing at 11:00 am Taipei time, 2 Taipei business days prior to the start of the relevant interest period, which shall be reset per three months.

Unit : NT\$

Item	Subordinate debt (2)
Date & No Approved by the Central Competent Authority	FSC, Jin-Kuan-Yin-(2)-No.09700499970 (Dec. 22, 2008)
Date of Issuance	Jan. 20, 2009
Par	10 million
Place of Issuance and Trade	Republic of China
Currency	New Taiwan Dollars
Price of Issuance	100%
Total Amount	3 billion
Interest	Fixed rate 3.40%
Tenor	7 years, maturity date : Jan. 20, 2016
Senior / Subordinate debt	Subordinate debt
Guarantor	None
Trustee	None
Underwriter	GRAND CATHAY securities, Mega securities, Yuanta securities, JIHSUN securities
Certified Lawyers	None
Certified Public Accountants	None
Certification Institution	None
Repayment	Repayment in lump sum upon maturity
Outstanding Balance	3 billion
Year 2008 Paid-in Capital	5.2 billion 57.98million 1 thousand 9 hundred and fifty
Year 2008 Total Stockholders' Equity	9.3 billion 55.29 million 3 thousand 3 hundred and eighty nine.
Performance	Normal
Redemption or Early Exercise Term	None
Convertible and Swap Term	None
Restricted Clause	None
Fund Utilization Plans	Corporate with Medium and Long Term Loans
Ratio of the Registered Value of Issue plus Outstanding Balance against the Net Value after Settlement of the Year previous to the Year of Issue (%)	42.76%
Whether Include Qualified Capital and the Corresponding Category	Tier 2
Credit Rating Agency, Date and Rating	Taiwan Ratings Corp. Ratings : twBBB, Dec. 13, 2011.

4.2.2 Preferred Stocks 、 Overseas Depository Receipts 、 Employees Share Options Receipts 、 Merger & Acquisitions : None.

4.3 Financing Plans and Implementation

4.3.1 Finance Plans

Up to Q1 of 2013, with respect to each uncompleted public issue or private placement of securities and financial debentures, and to such issues and placements that were completed in the most recent three years but have not yet fully yielded the planned benefits : None.

4.3.2 Implementation : None.

5.1 Business Scope

5.1.1 Main areas of business operations

Business Item	Major Business
Wealth Management Business	With Respect to High Net Worth Customers, the Personnel of Wealth Management Provide the Financial Planning or Allocation of Assets Per Customers' Requirements and Offer Various Financial Products and Services Included in the Bank's Business Lines Approved by the Competent Authority.
Loan Business	Consumer Banking Product : Mortgage Loans, Simple Credit Loans, Operating Fund Financing, Individual Credit Loans, Tuition Loan, Credit Cards and Credit Card Processing etc.
	Corporate Banking Product : Operating Fund Financing, Loans for Capital Expenditure, Project Loans, Issuance of Local Letters of Credit, Letter of Credit Issuance, Export Negotiation, Guarantees and Acceptances etc.
Electronic Financial Business	Chip Combo Card, Internet Banking, Web ATM, Telephone Voice Service, Financial XML-based operating Platform for Collecting Banks, Domestic ATM Acquiring Affairs in UnionPay Card in Taiwan, Electronic Payment System of Kaohsiung City Treasury, etc.
Foreign Exchange Business	Export, Import, Outward and Inward Remittance, Foreign Currency Deposit, Foreign Currency Loans, and Payment Secured by Foreign Currency, Without Recourse Factoring, Transaction of Derivative Financial Products and OBU Foreign Check Deposit Business.
Trust Business	Trust of Real Estate, Trust of Securities, Money Trust, Trust of Money Claim and Guaranteed Right of Object, Assumption of Executor and Administrator Of Estates of Deceased Person, Discretionary Investment Business, Act as Agent for Issuance, Transfer and Registration of Marketable Securities, and Payment and Distribution of Dividends, Interests and Bonus, Provide Advisory Service on Issuance and Offering of Marketable Securities, Subscription Business of Portfolio, Custody Services, Safe-Deposit Box Rental Service etc.
Investing Business	Transactions of Stocks, Beneficiary Certificates for Funds, Short-Term Bills, Preferred Stocks with Fixed Income, Negotiable Certificate of Deposit of the Central Bank, Government Bond, Corporate Bond, Beneficiary Securities and Asset-Backed Securities.

5.1.2 Weightings and Changes of Key Business Assets against Total Assets

Unit : NT\$ Million, %

Major Business	2012.12.31		2011.12.31	
	Amount	%	Amount	%
Total Assets	221,121	100.00	223,909	100.00
Consumer Banking Business	54,003	24.42	53,697	23.98
Corporate Banking Business	109,394	49.47	114,203	51.00

5.1.3 Weightings and Changes of Key Business Revenue against Total Operating Revenue

Unit : NT\$ Million, %

Item	2012.1.1-2012.12.31		2011.1.1-2011.12.31	
	Amount	%	Amount	%
Total Operating Revenue	5,177	100.00	5,219	100.00
Revenue on Loan Business	3,493	67.47	3,242	62.12
Revenue on Investing Business	825	15.94	730	13.99
Revenue on Wealth Management Business	295	5.70	279	5.35
Revenue on Deposit Business	24	0.46	27	0.52
Revenue on Foreign Exchange Business	23	0.44	23	0.44

5.1.4 Business Plan for 2013

1. To increase BIS ratio and expand the revenue size:
 - (1) Issues subordinated debts to increase capital adequacy ratio; expand the scope of operation and bolster earnings in order to increase tier 1 capital.
 - (2) Adjust the asset structure to increase engagement in loan operations that has low risk factor.
2. To increase the write off coverage ratio to strengthen risk tolerance.
 - (1) We committed ourselves to increase profit. Our priority is raising our bad debt allowance and enhancing our ability to absorb risks.
 - (2) Strengthen quality of credit extension, speed up collection of non-performing loans and be familiar with borrowers to decrease overdue loans.
3. Continuously increase asset profitability.
 - (1) Increase in engagement of small-medium business loans and home mortgage.
 - (2) Decrease MML business, municipal government loans of lower profitability, adjust asset portfolio, improve the quality of assets and increase the profits.
 - (3) Strengthen the promotion of participation in OBU business.
4. To expand the revenue size: expand the revenue size by using an institutional client group and general consumer group as the main axis and promote the deposit.
5. Plan a variety of new businesses to satisfy customer's needs of "one stop fulfillment of purchase".
 - (1) To set up CNY business for DBU.
 - (2) Gold passbook.
6. Increase the size of foreign exchange deposit and revenue.

Increase E-banking services items for strengthening competitiveness and increase business volume of foreign exchange.
7. To strengthen **wealth** management to increase benefits of exercising funds.

Taking into consideration both security and liquidity, and operate steadily to increase benefits of exercising funds.
8. Increase income of transaction fees:
 - (1) Increase promotion of foreign and domestic funds businesses.
 - (2) Trust business, increase trust fees of real estate trust business.
 - (3) Expand our customer base. Promote mutual fund and personal finance businesses to increase fee and commission revenue.
9. To decrease the capital cost and improve the deposit structure.
 - (1) Reduce the size of time deposits to reduce the cost of capital.
 - (2) Roll out demand deposit competition
10. Strengthen internal control and risk management framework for prevention and reducing frauds.



5.1.5 Market Analyses

1. Regions Where the Bank Operates

The bank focuses primarily on the domestic market. Until the end of 2012, the Bank has 40 business units (exclusive of OBU), 30 of which are located in Kaohsiung City, 1 in Pingtung City, Tainan City, Taichung City, Taoyuan City, and Hsinchu City, 2 in New Taipei City and 3 in Taipei City.

2. Future Supply and Demand and Growth of the Market in which the Bank is Engaged

(1) Future supply and demand of market

The Central bank will continue to monitor control stipulations on home purchase, land mortgage measures and luxury home mortgage on specific regions in 2013, for strengthening the activity of real estate trading marking under credit risk management of financial institutions. The financing facility will be suppressed continuously.

To expand the region for business development of domestic financial institutions, Financial Supervisory Commission promote and organize the “the project of financial management platform for Taiwan locals” that satisfy the locals’ needs on asset management. That platform will develop toward linking underlying products of currency of Mainland China and Taiwan, which provide more diverse financial management options for locals.

(2) Growth of the Bank

We expect that, in the short run, market interest rates will remain unchanged. Since the room for significant growth of interest rates at the Bank is limited, in order to increase profit, the Bank will aggressively adjust our loan portfolio to improve the interest rate spread. At the same time, we will adjust our deposit structure to lower the cost of capital and increase profit.

3. The Bank’s Competitive Niche

The Bank’s prime competitive strength resides in its identity as a “local bank” operating for thirty-one years domestically and engaged in developing local business and plentiful local resources.

4. Advantageous and Disadvantageous Factors of the Bank’s Prospect, and Response Measures

(1) Favourable Factors

- A. The Kaohsiung City Government holds 45.28% of the bank’s ownership interest, providing stable management as well as consistent sources of deposit and loan businesses.
- B. The bank has capitalized on the distinct industry characteristics of the Kaohsiung region, and developed its SMEs lending for many years. It has accumulated a customer base that generates consistent revenues, and a loan portfolio that grows progressively year after year. The bank is well-positioned in the local market.
- C. The Bank is actively developing the wealth management business for higher fee-based income and diversifies earnings.

(2) Unfavourable Factors

- A. Compared to industry peers, the Bank has lower demand deposit ratio results in higher funding costs and lower profitability.
- B. Small business size and weak bargaining power makes the Bank susceptible to market competition and lower interest margins.
- C. Following expansion of the cross-strait financial policy, the market changes from time to time. The bank will face more intensive “conglomerate” competition.

(3) Response Measures

- A. Attract low-cost capital and improve our current deposits to reduce funding costs.
- B. Continue enhancing and adjusting asset and liability portfolio, in hopes of expanding the interest spread for deposits and generating income.
- C. Continue enhancing upgrading the proportion of loans to SMEs, fostering local SMEs, increasing the Bank’s income and creating a win-win situation.

5.1.6 Overview of Research and Business Development of Financial Products

1. The Scale and Performance of Major Financial Products and Corresponding New Functional Units in the Past Two Years

(1) Scale of Major Financial Products

Unit : NT\$ Million

Major Financial Products	2011.12.31 Balance	2012.12.31 Balance	2013.03.31 Balance
Loans to SMEs	39,531	40,678	42,816
Tuition Loan	6,650	6,598	6,379
Simple Credit Loans	1,532	1,285	1,156
Specific Money Trusts Earmarked for Investing Foreign and Domestic Securities	18,721	18,730	17,979
Trust Assets	19,100	20,168	19,587

(2) New Business Units : None.

2. Expenditure & Results of R & D in the past two years and Future Plans

(1) Expenditure of R & D

Unit : NT\$ Million

Year	2012	2011
Amount	0.66	0.59

(2) Results of R & D

Business Item	Financial Products
Deposit Business	On-line automatic debit of Kaohsiung City parking fees included Fengshan and Niensong Districts additionally.
Loan Business	Open "Low-Interest Mortgage Campaign Project", "Mortgage Life Insurance Premium Campaign" and "ATM Card and Personal Financial Planning Campaign", etc.

(3) Future Plans of R & D

Unit : NT\$ Million in 2013.3.31

Plans of R & D	Progress	Fees of R& D	Time of Work-Down	Key Point of Success
None	None	None	None	None

5.1.7 Plans for Long-term and Short-term Business Development

1. Short-term Business Development

(1) Loan Business

A. In order to promote the loan to SMEs aggressively and control risk, the Bank continues promoting transfer of SMEs credit guarantee bond business. The promotional strategies include adjustment of license and drafting the incentive programs to upgrade business entities' willingness to be enrolled in the programs.



Operational Highlights

- B. Strengthen consumer banking by continuing to transact the competitive “Low-Interest Mortgage Campaign Project”, widening the eligibility of Simple Credit Loans, and flexibly adjusting the maximum loan quantum.
- C. To cope with Kaohsiung City Government’s policy to develop the economy and boost industry, the Bank continued to transact the “Funding Program for Enterprises in Jurisdiction of Kaohsiung City and Pingtung County” and “Small Commercial Loan” to fulfill its goal of being a “local”, “professional” and “outstanding” bank to help SMEs.

(2) Trust Business

Continue promoting “Specific Money Trusts Earmarked for Investing Foreign and Domestic Securities” Preferential project, dedicated to developing the “independent management and employment of money trust”, “Real estate trading price trust business”, “trust of real estate trust for co-construction of houses”, “trust of securities” and “Escrow service for pre-construction housing units”.

(3) Deposit Business

- A. Upgrade the demand deposit weight, and improve deposit structure to reduce the Bank’s working fund cost.
- B. Establish the financial XML-based operating Platform for Collecting Banks to provide a well-founded e-platform for corporate banking and stabilize the clientele.

(4) Foreign Exchange Business

- A. Offer CNY services.
- B. Planned to provide online services of deposits, remittances and L/C issuance that amount over NTD 500 thousand.

(5) Wealth Management Business

Organize the wealth management personnel training sessions internally to enhance wealth management personnel’s professional qualification and compliance, and organize wealth management seminars for customers and irregular feedback campaigns externally to cultivate the interaction between the Bank and customers more thoroughly.

(6) Municipal Treasury Business

- A. It is planned to establish a tax collection unit that locates outside of our branch, and to collect various taxes via computerized operation, which implemented the internal control.
- B. To benefit the public in paying various taxes, we assisted institutions in developing a “payment slip barcode system” and authorized convenience stores to collect taxes on our behalf, which is beneficial for write off operations.

2. Long-Term Development

(1) Loan Business

Target loan to SMEs generating higher profit as the first priority, develop SMEs and increase the profit within the extent that risk is controlled in a proper manner.

(2) Offshore Banking Business

- A. Cultivate old customers and develop new customers: cultivate old customers that have established off-shore factories through the various branches, develop new customers and solicit customers that have not yet traded with the international financial business branches in Taiwan in the capacity of “off-shore company”.
- B. Fulfill off-shore credit investigation: send the personnel to collect the business information in Mainland China and South East Asia irregularly, and contact members of the local Taiwan businessmen associations through Taiwan businessmen who have traded with the Bank, so as to control customers’ status and extend business reach.
- C. Enhance the international syndicated loan business by adding secondary market among the Bank’s target market. By selecting quality case with duration within 2 to 5 years and interest spread over 2%, to reduce the risk and increase the Bank’s earnings.

(3) Wealth Management Business

Assist wealth management personnel internally to develop different customer bases and provide complete and diversified wealth management products, and work hard to “Satisfy Customers and Create Customer Value” externally as its ultimate purpose.

(4) Municipal Treasury Business

It is planned to establish a “Government treasury service net” on our bank’s website, which benefits institutions in executing online operations for decreasing teller operation time and customer waiting time.

5.2 Human Resources

5.2.1 Information of Employees for the Past Two Years & Up to Mar. 2013

Year		2011	2012	2013.03.31
Number of Employees (Person)		939	942	934
Average Age (Years old)		43.38	44.45	45.28
Average Years of Service (Year)		16.65	17.52	18.33
Level of Education (%)	Ph.D.	0	0.21	0.21
	Masters	10.54	11.79	12.21
	Bachelor's Degree	78.60	77.39	76.87
	Senior High School	9.80	9.55	9.64
	Below Senior High School	1.06	1.06	1.07
Name of Employees With Certificates, Licenses and Qualifications (person)	Securities Investment Analyst	4	6	6
	Securities Specialist	80	81	80
	Senior Securities Specialist	222	229	230
	Securities Investment Trust and Consulting Professionals	153	164	166
	Analysts of Futures Trading	1	1	1
	Futures & trust fund sale representatives	105	104	106
	Bill Finance Specialist	209	215	219
	Trust Supervisor	12	10	10
	Trust Manager	302	198	195
	Trust Operations Personnel	668	667	666
	Basic Test for Bank Internal Control	706	711	707
	Non-Life Insurance Agent	1	1	1
	Non-Life Insurance Broker	1	1	1
	Life (Investment Link) Insurance Sales Agents	771	772	766
	Non-Life Insurance Sales Agents	623	620	616
Certified Public Accountants	1	1	1	

5.2.2 Employees' Further Education and Training

- For the purpose of encouraging employees to undertake further studies in off-work hours, the Bank has a policy of reimbursing half of the tuition fees for any employees undertaking further studies relevant to their work at universities, colleges or graduate schools of universities. The Bank has sponsored 43 person-times in FY 2012.
- In order to advance the professionalism and skills of the Bank's employees, develop future human resources in all kinds of business and with the aim of improving employee quality and enhancing our service quality, the Bank continually plan for the various training programs from time to time. Details of training programs for FY 2012 are as follows:
 - (1)Internal Training (Include Commissioned Training): In 2012, 51 class-times of "The on the job training for financial sales of 1st quarter, 2012." were offered and a total of 2,887 person-times attended the training, which covered the various fundamental sales training courses, advance finance and sales courses, regulations educational courses, new financial products (and promotion) courses and financial management and insurance or marketing techniques seminars and leadership management course.
 - (2)External Training : Due to business requirements, the Bank sent employees from time to time to attend the relevant training programs organized by other related educational training institutions. In FY 2012, we have sent a total of 644 person-times to participate in such training programs.



(3) Overseas Educational Visits / Seminar : In FY 2012, the Bank sent 4 person-times abroad to undertake educational visits.

(4) To fulfill the corporate governance system and upgrade directors' / supervisors' professional intelligence, the Bank sent 9 directors / supervisors including Chien-Sheng Hao to attend the corporate governance or financial professional programs in 2012, totaling 20 person-times.

5.3 Social Responsibility and Moral Behavior of the Bank

5.3.1 Care about Society

The "Kaohsiung Bank Social Welfare and Charity Foundation" was incorporated by the Bank in Mar. 2008. The Bank is committed to various charities and activities in 2012, including to donating funds to Taiwan Fund for Children and Families, co-sponsoring the two programs "Harbor City Collective Student Loan" and "Seeing Hope Express Service" with United Charity Association Kaohsiung. Actively participate and sponsor "Down's baby Ice land Adventure Summer Camp" held by Down's Syndrome Caring Association, "Low income households charity activity" held by Kaohsiung City Shan Garden Charity Association, "Food Bank Assistance program for elementary school children in remote areas" held by ANDREW Charity Association, "Raising Home for Children" project fundraised by Concerned Ichthyosis Association Kaohsiung, "25th Charity Concert" by Syn-Lu Social Welfare Foundation and Zuoying special development center lunch fees, "Disadvantaged families, children and youth community care service project" organized by GWG Social Welfare Charity Foundation, "Send love to tribe of lunchbox fundraising project" held by Children by Us foundation, donated microphone equipment to GWG Social Welfare Charity Foundation and Kaohsiung City Liouguei Baolai Remodel Association (1 set), "Save the Famished Children – Paint the dragon eye children drama charity performance" by World Peace, "Rare Diseases Of Spinocerebellar Ataxia Holistic Support Program" held by the Southern region office of Taiwan Spinocerebellar Ataxia Association, "Blooming Silent world – Showcasing the charm of city-Kaohsiung, Mandarin Competition for hearing loss students in KaopingNan region" held by Sound of Home Foundation, "Sunshine Bursary Project" held by Sunshine Social Welfare Foundation, "The 10th Appreciation Concert of Angel Heart Family" held by Angel Heart Family Social Welfare Foundation, "Cornerstone disadvantaged children holiday activity lunchbox fundraising project" held by Promotive Association of Ideal Family, "Warm up the winter for deaf" event held by Deaf and mute benefit association, "Appreciation and caring charity luncheon" held by Evergreen Senior Caring Association, "ORBIS eye sight screening test for school children in remote areas" held by ORBIS Taiwan, "Early Childhood Education for craniofacial children allowance" held by Noordhoff Craniofacial Foundation, "Equipment allowance" for Xiaoling Xiaoai community development association, "Equipment allowance for after school class for disadvantaged children" held by LiouGuei remodel caring association, "Cooking and bathroom equipment allowance for Cultural Growth Class" held by Maolin Community Construction Association, "After school care for Disadvantaged aboriginal children" held by Maolin Aboriginal women and children development association, "End of year winter caring event for aboriginals" held by Kaohsiung City Council, "2012 The appreciation event of spreading kindness and caring land" held by Kaohsiung City Hou-Ahin Charity Foundation, "Happy Neighborhood, Active Kaohsiung – Health walk for mothers" held by Kaohsiung City Women Health Caring Association, "2012 Strengthen Community Season carbon reduction promotion" held by Kaohsiung City Zuo Ying region Xing Xia Community Development Association, "2012 Hearts for Harbour – Happy Kaohsiung" held by Kaohsiung Youth Service Association, "Visit to Starlet Ecological Farm for Autism patients" by Kaohsiung branch of Soroptimist International and "2010 Loving Dog Festival-Give a home to furry street kids" held by The Port Junior Chamber, and also organize one blood donation campaign in August and December respectively.

5.3.2 Assistance for Learning and Growth

The Bank enthusiastically sponsored the "3rd Term Children Folkgame Memory and Endless Love Charity Carnival" sponsored by The "Little Tarzan trekking Shou Mountain – Children festival challenge event" held by Kaohsiung City Active Youth Caring Association and the "Seminar for volunteers and city hall building visits of 2012" held by Kaohsiung city Gang An Caring association.

5.3.3 Sponsor Art & Cultural and Physical Training Events

The Bank enthusiastically sponsored the "R.O.C 2012 National Badminton Championship" held by Badminton Association of Kaohsiung Municipal Athletic Federation, "Hot Harbour – Summer foreign country festival" held by The Port Junior Chamber, the "101 National Disabled Games" held by Kaohsiung City government, "Sky dance musical" held by Taiwan Drama Performance, "Chen Mei Yun Taiwanese Opera - blooming Erithryna

Flower” held by Bureau of Cultural Affairs, Kaohsiung City Government, “Kaohsiung city mayor cup: 22nd Fong Shan Taiwan and Japan ground golf assembly” held by Kaohsiung City Fong Shan Ground Golf Association, “Kaohsiung city 2012 senior cup global croquet championship” held by Kaohsiung city croquet Association, “The Third Wonderful Painting” held by Kaohsiung City Lotus Lake cultural tour association, “The First Kaohsiung City Chairman Cup for Badminton and promotion for proper summer activity for youth” held by Kaohsiung City Recycle Associations, “2012 Charity Concert - Love brings out hope” held by Kaohsiung City Women Association, “The 13th Presidential Cup for International Ground Golf Game” held by The Republic of China Ground Golf Association, “The 2nd of Second NanKaoPing End of Year Community Education and Group Benefit Performance Assembly” held by Kaohsiung City Feng Ling Community Education Promotion Association and “Taiwanese Rock and roll – reminiscing Cijin and flowing music” held by Kaohsiung City Neighborhood Culture Development Association.

5.4 Information Technology and Computer Facility

5.4.1 The Core Hardware / Software and Maintenance

The current hardware of the core IT system contains IBM NTD transaction server, disk, transmission control server, foreign exchange transaction server and two cryptosystem servers, and the software in service are IBM Z/VSE4.1 for core banking system and IBM OS / 400 V4R5 for the foreign exchange system. The Bank engage maintenance contracts with both systems.

5.4.2 Emergency Backup and Security Protection

1. Developing and testing systems function not only for implementation and testing on a daily basis but also the backup systems for operating systems, such as operation server, disk, and communication control server. The two cryptosystem servers are the backup for the cryptosystem systems of operation hardware.
2. The Bank conduct backup drill for operation mainframe, communication control server, and cryptosystem systems on a six-month basis. As to backup drill for disk storages, the Bank has it once each year.
3. The Bank entered into a remote backup contract with FISC, which requires us to conduct remote backup drills twice a year in FISC.
4. To ensure the IT facility is functioning well and the safety of employees, the Bank impose entrance control in the IT building and have a generator, two sets of uninterruptible power system, and two sets of air conditioning machines. The Bank also conduct a fire drill every six months.

5.5 Labor Relations

5.5.1 Employees' Benefits, Retirement, Labor-capital Agreement and Fulfillment of Labor Rights

1. Employees' Benefits: In order to ensure better living for the Bank's employees and encourage their working spirit, they are eligible for performance incentives and bonuses, group insurance, subsidies of credit points for further education, welfare funds, and scholarships for their children's education.
2. Retirement: The Bank conduct retirement of bank employees in accordance with the “Rules Governing Retirement, Pension and Layoff of Employees of Bank of Kaohsiung”, and contribute monthly Workers' Retirement Reserve Funds pursuant to the Labor Standard Act and provide the laborers' retirement pension on a monthly basis pursuant to the Labor Pension Act.
3. Labor-Capital Agreement: The Bank has an agreement with the Bank of Kaohsiung Workers Union for protecting labor rights and ensuring the relationship is in harmony.
4. Fulfillment of Employee Rights: The Bank has rules to clearly specify rights and obligations between the employer and employees. Those rules stipulate promotion, assessment, position rotation, reward and penalty, and bonuses respectively for securing rights of employees.

5.5.2 The Bank has Suffered Any Loss Arising from Labor Disputes for the Past Two Years and Up to Mar. 2013 : None.

5.5.3 Reponses to Current and Potential Disputes that May Occur in the Future : No dispute was occurred up to Mar. 31, 2013.

5.6 Important Contracts

Nature of Contract	Contracting Party	Duration of Contract	Major Contents	Restriction Clause
Outsourcing Contract	The Company and Financial Information Service Co., Ltd.	from: Dec. 1, 2008 to: Dec. 31, 2013	Credit card service	None
Outsourcing Contract	The Company and Hewlett-Packard Taiwan Ltd.	from: Apr. 1, 2011 to: Mar. 31, 2014	Data processing	None
Outsourcing Contract	The Company and An Feng Enterprise Corporation	from: Feb. 1, 2013 to: Jan. 31, 2015	ATM service	None
Outsourcing Contract	The Company and Li Pao Security Corporation	from: Feb. 1, 2012 to: Jan. 31, 2014	Cash escort	None
Outsourcing Contract	The Company and Chunghwa Post Co., Ltd., Taipei Post Office.	from: Jan. 1, 2013 to: Dec. 31, 2013	Printing, packing and mailing of notice of tuition loan, account statement of specific money trusts earmarked for investing foreign and domestic securities, interest income and salary withholding certificate, statement of loan interest payment and account statement of deposit.	None
Outsourcing Contract	The Company and CHUNG HWA Express Corp.	from: Dec. 17, 2012 to: Dec. 16, 2013	The Securities and other document are delivered among Gangshan Benjhou Branch, Chien Chin Branch and Business Dept. of the Bank.	None
Outsourcing Contract	The Company and Macroscopic Corporation	as of Jan. 10, 2008	ALM and FTP	None
The City Treasury Agency Contract	The Company and The Bureau of Finance of Kaohsiung City Government	from: Feb. 9, 2000 to: Jun. 30, 2020	The Bank was entrusted to be the agent of Kaohsiung City Treasury	None
The National Treasury Agency Contract	The Company and the Central Bank of China (CBC)	as of Feb. 1, 2011	The Bank was entrusted to be the agent of the National Treasury	None
Contract for Collection of Local tax	The Company and Bank of Taiwan	from: Jul. 1, 2010 to: Jun. 30, 2015	The Bank was entrusted to be the collection agent of various tax payments levied by various municipal cities, counties/cities, townships/districts.	None
Contract for Collection of National Tax	The Company and the Central Bank of China (CBC)	as of Jul. 1, 2010	The Bank was entrusted to be the collection agent of national tax.	None

Nature of Contract	Contracting Party	Duration of Contract	Major Contents	Restriction Clause
Agency of Kaohsiung Municipal Treasury Business Contract	The Company and 28 banks including Bank of Taiwan and Farmers' Association.	as of Jan. 1, 2011	The Bank re-entrusted the Kaohsiung Municipal Treasury Business to 28 banks including Bank of Taiwan and Farmers' Association.	None
Contract for Collection of Local Tax	The Company and Land Bank of Taiwan	as of Jul. 1, 2010	The Bank was entrusted to be the collection agent of local tax levied by the Kinmen County Government.	None
Contract for Collection of Municipal Tax and Fee of Taipei City	The Company and Taipei Fubon Bank	as of Jul. 1, 2010	The Bank was entrusted to be the collection agent of municipal tax, non-tax and fee of Taipei City.	None
Contract for Collection of Municipal Tax and Fee of Kaohsiung City	The Company and 41 banks including Bank of Taiwan.	from: Jul. 1, 2010 to: Jun. 30, 2015	The Bank entrusted to be the collection agent of municipal tax, other income and fee of Kaohsiung City.	None
Electronic Payment Contract	The Company and Kaohsiung City Government	from: Jan. 1, 2013 to: Dec. 31, 2016	The Bank was entrusted to be the agent of electronic payment system of Kaohsiung City Treasury	None
Contract for Collection of Traffic Fine	The Company and Transportation Bureau, Kaohsiung City Government	from: Jan. 1, 2013 to: Dec. 31, 2014	The Bank was commissioned to close cases immediately upon collection of "traffic fine".	None
Contract for Collection of vehicles fuel charge	The Company and Kaohsiung City Motor Vehicles Office	from: Jan. 1, 2013 to: Dec. 31, 2013	The Bank was entrusted to collect for vehicle fuel charge.	None

5.7 Information on Securitization Products Issued in FY 2011 Permitted under "Financial Assets Securitization Provision" or "Real Estate Securitization Provision" : None.

6.1 Five-Year Financial Summary and Statement of Comprehensive Income

6.1.1. Condensed Balance Sheet

6.1.1.1 Condensed Balance Sheet—ROC GAAP

Unit : NT\$ Million

Item	Year	Five-Year Financial Summary				
		2008.12.31	2009.12.31	2010.12.31	2011.12.31	2012.12.31
Cash & cash equivalents, Due from CBC and lent to banks		20,261	25,035	28,890	26,975	27,802
Financial assets at fair value through income statement		1,900	2,127	1,104	1,616	1,460
Bills and bonds purchased under resale agreements		9,703	3,895	2,791	5,878	4,967
Available-for-sale financial assets – net		2,644	3,822	5,094	11,748	19,137
Discounts & loans – net		136,927	138,261	162,194	166,216	162,044
Accounts receivable – net		784	790	989	981	974
Held-to-Maturity financial assets – net		4,227	5,396	7,695	5,567	0
Equity method's investments – net		45	45	55	63	79
Property and equipment cost		2,346	2,285	2,237	2,202	2,135
Intangible assets – net		58	70	59	63	50
Other financial assets – net		4,037	3,622	3,048	1,831	1,724
Other assets – net		765	809	748	769	749
Total assets		183,697	186,157	214,904	223,909	221,121
Due to CBC & banks		10,862	10,548	12,606	11,512	11,936
Deposits & remittances		158,664	157,922	185,167	193,944	189,552
Financial liabilities at fair value through income statement		20	2	15	4	1
Bills and bonds sold under repurchase agreements		293	214	141	103	69
Funds borrowed from CBC & banks, financial bonds payable		1,000	4,000	4,000	4,000	4,000
Liabilities of preferred stocks		0	0	0	0	0
Pension payable		202	221	253	305	354
Other financial liabilities		300	285	207	195	152
Other liabilities		2,900	3,531	2,956	3,482	4,151
Total liabilities	Before distribution	174,341	176,723	205,345	213,545	210,215
	After distribution	174,341	176,723	205,355	213,545	–
Capital		5,258	5,258	5,258	7,069	7,069
Capital reserve		2,543	2,543	2,543	2,018	2,018
Retained earnings	Before distribution	1,582	1,658	1,785	1,278	1,664
	After distribution	1,582	1,658	1,775	1,278	–
Unrealized gain and loss on financial instruments		(27)	(25)	(27)	(2)	154
Cumulative Translation Adjustment		0	0	0	0	0
Other shareholders' equity		0	0	0	1	1
Total shareholders' equity	Before distribution	9,356	9,434	9,559	10,364	10,906
	After distribution	9,356	9,434	9,549	10,364	–

Note : 1. The financial information listed above has been audited by the CPA Shu-Man Tsai and Ling-Wen Huang.
 2. Auditors' opinion: Unqualified opinion for FY 2012.

6.1.1.2 Condensed Balance Sheet — IFRSs

Unit : NT\$ Million

Item	Year	2013.3.31
Cash & cash equivalents, Due from CBC and lent to banks		26,607
Financial assets at fair value through income statement		1,024
Available-for-sale financial assets		18,952
Derivative financial assets for hedging		0
Bills and bonds purchased under resale agreements		2,855
Accounts receivable-net		1,132
Income tax assets - current period		35
Assets held for sale-net		0
Discounts & loans-net		164,242
Held-to-Maturity financial assets-net		0
Equity method' s investments-net		0
Restricted assets		0
Other financial assets-net		1,616
Property, plant and equipment-net		2,753
Investment property-net		0
Intangible assets-net		49
Deferred income tax assets-net		128
Other assets-net		79
Total assets		219,472
Due to CBC & banks		14,165
Funds borrowed from CBC & banks		0
Financial liabilities at fair value through income statement		3
Derivative financial liabilities for hedging		0
Bills and bonds sold under repurchase agreements		68
Accounts Payable-net		3,681
Income tax liabilities- current period		12
Liabilities directly related to assets held for sale		0
Deposits & remittances		185,837
Bonds payable		4,000
Liabilities of preferred stocks		0
Other financial liabilities		150
Liability reserve		762
Deferred income tax liabilities		0
Other liabilities		200
Total liabilities	Before distribution	208,878
	After distribution	—
Profit and loss attributable to the parent company		
Capital		7,069
Capital reserve		2,018
Retained earnings	Before distribution	1,465
	After distribution	—
Other equity		42
Treasury Stock		0
Non-controlling interests		0
Total equity	Before distribution	10,594
	After distribution	—

Note : CPAs Shuman Tsai and Ling-wen Huang reviewed the information in the financial statement for the first quarter of 2013. .

6.1.2. Condensed Statements of Income

6.1.2.1 Condensed Statements of Income — ROC GAAP

Unit : NT\$ Million

Item	Year	Five-Year Financial Summary				
		2008.1.1 – 2008.12.31	2009.1.1 – 2009.12.31	2010.1.1 – 2010.12.31	2011.1.1 – 2011.12.31	2012.1.1 – 2012.12.31
Net interest revenue		2,081	1,340	1,789	1,988	2,103
Net non-interest revenue		(645)	629	554	330	881
Credit loss expenses		622	217	308	899	579
Operating expenses		1,801	1,709	1,829	1,848	1,986
Income before tax – operating department		(987)	43	206	(429)	419
Income after tax – operating department		(977)	76	127	(433)	386
Non-operating department income – after income tax		0	0	0	0	0
Special income – after income tax		0	0	0	0	0
Cumulative effect of changes on accounting principles – after income tax		0	0	0	0	0
Net income		(977)	76	127	(433)	386
Earnings per share (NT\$)		(1.86)	0.15	0.24	(0.71)	0.55

Note : 1. The financial information listed above has been audited by the CPA Shu-Man Tsai and Ling-Wen Huang.
2. Auditors' opinion : Unqualified opinion for FY 2012.

6.1.2.2 Condensed Statements of Comprehensive Income — IFRSs

Unit : NT\$ Million

Item	Year	2013.1.1 – 2013.3.31
Interest revenue		970
Less: Interest expenses		447
Net interest revenue		523
Net non-interest revenue		177
Net revenue		700
Reserve for losses on guarantees and credit loss.		60
Operating expenses		507
Income before tax – operating department		133
Income tax (expense) benefit		(22)
Net income – operating department		111
Net income – non-operating department		0
Net income (loss)		111
Other comprehensive income (net income after tax) - current period		(61)
Total of comprehensive income- current period		50
Net income attributable to the parent company		111
Net income attributable to non-controlling interests		0
Net income of all the comprehensive income attributable to the parent company		50
Total of comprehensive income attributable to non-controlling interests		0
Earnings per share (NT\$)		0.16

Note : CPAs Shuman Tsai and Ling-wen Huang reviewed the information in the financial statement for the first quarter of 2013.

6.2 Five-Year Financial Analysis

6.2.1 Financial Analysis

6.2.1.1. Financial Analysis — ROC GAAP

Amount Unit : NT\$ Million

Item		Year	Financial Analysis in The Past Five Years				
			2008	2009	2010	2011	2012
Operating Ability	Loans to deposits ratio (%)		86.03	87.23	87.35	85.91	85.79
	Ratio of NPL (%)		1.87	1.98	0.99	1.04	0.85
	Interest expenses to average deposit balances (%)		1.78	0.87	0.61	0.79	0.88
	Interest income to average loan balances (%)		3.41	1.90	1.72	1.92	2.08
	Total assets turnover ratio (times)		0.01	0.01	0.01	0.01	0.01
	Operating revenue per employee		1.53	1.98	2.56	2.47	3.17
	Earnings per employee		(1.04)	0.08	0.14	(0.46)	0.41
Profitability	Return on tier 1 capital (%)		(10.71)	0.50	2.42	(4.73)	4.26
	Return on total assets (%)		(0.57)	0.04	0.06	(0.20)	0.17
	Return on shareholders' equity		(9.88)	0.81	1.34	(4.35)	3.63
	Net profit margin (%)		(68.04)	4.19	5.43	(18.69)	12.94
	Earnings per share (NT\$)		(1.86)	0.15	0.24	(0.71)	0.55
Financial Structure	Liabilities to total assets ratio (%)		94.89	94.92	95.54	95.37	95.06
	Fixed assets to stockholders' equity ratio (%)		25.08	24.22	23.40	21.25	19.58
Growth Rate	Asset growth rate (%)		17.14	1.34	15.44	4.19	(1.25)
	Earnings growth rate (%)		(500.55)	104.32	382.28	(308.55)	197.78
Cash Flow	Cash flow ratio (%)		28.58	4.66	6.36	6.37	11.04
	Cash flow adequacy ratio (%)		1,019.36	849.98	1,231.87	1,407.94	3,892.46
	Cash flow satisfied ratio (%)		12.95	21.26	3.23	10.66	Exp.2
Liquidity reserve ratio (%)			16.78	17.04	13.97	15.25	16.79
Total secured loans to related parties			777	757	862	1,394	981
Total secured loans to related parties as a percentage of total loans (%)			0.53	0.51	0.51	0.80	0.57
Operating Scale	Asset market share (%)		0.47	0.55	0.60	0.59	0.56
	Equity market share (%)		0.55	0.46	0.44	0.45	0.43
	Deposit market share (%)		0.53	0.50	0.68	0.68	0.64
	Loan market share (%)		0.60	0.60	0.78	0.73	0.69

Explain:

1. Analyses of financial ratio change in the last two years : The increase in the ratio about profitability in 2012, caused by decrease of bad debt expense and impairment of foreign currency investments.
2. Net Cash inflows from investing activities.

Note : 1. The financial information listed above audited by our independent auditors, excluding the information of operating scale.

2. The aforementioned ratios are calculated as follows :

A. Operating Efficiency

(1) Loans to deposits ratio = Total loans / Total deposits

(2) Ratio of NPL = Total non-performing loans / Total loans



- (3) Interest expenses to average deposit balances = Total interest expenses / Annual average deposit balances
 - (4) Interest Income to average loan balances = Total interest income / Annual average loan balances
 - (5) Total assets turnover ratio = Net revenue / total assets
 - (6) Operating revenue per employee (note 7)= Net revenue / Total number of employees
 - (7) Earnings per employee = Net income / Total number of employees
- B. Profitability
- (1) Return on Tier 1 capital= Income before tax / Average total Tier 1 capital
 - (2) Return on total assets = Net income / Average total assets
 - (3) Return on equity = Net income / Average net shareholder equity
 - (4) Net profit margin = Net income / Net revenue
 - (5) Earnings per share =(Net income –Preferred stock dividends) / Weighted average outstanding shares (note 5)
- C. Financial Structure
- (1) Liabilities to assets ratio= Total liabilities / Total assets
 - (2) Fixed assets to stockholders' equity ratio=Total fixed assets / Net stockholders' equity
- D. Growth Rate
- (1) Asset growth rate = (Current total asset – Last year's total asset) / Last year's total asset
 - (2) Earnings growth rate = (Current earnings before tax – Last year's earnings before tax) / Last year's earnings before tax
- E. Cash Flows (note 8)
- (1) Cash flow ratio = Cash flows from operating activities / (Due to banks and drafts + commercial bills payable + financial liabilities at fair value through income statement + bills and bonds sold under repurchase agreements + accounts payable in 1 year)
 - (2) Cash flow adequacy ratio = Cash flows from operating activities in the last 5 Years / (Capital expenditure + cash dividends) in the last 5 Years
 - (3) Cash flow satisfied ratio = Cash flows from operating activities / Cash flows from investing activities
- F. Liquidity Reserve Ratio = Current assets required by the CBC / Liabilities for which the various current reserve shall be provided
- G. Operating Scale
- (1) Asset market share = Total assets / Total assets of financial institutes which can operate deposits and loans business(note 6)
 - (2) Equity market share = Total equities / Total equities of financial institutes which can operate deposits and loans business
 - (3) Deposit market share = Total deposits / Total deposits of financial institutes which can operate deposits and loans business
 - (4) Loan market share = Total loans / Total loans of financial institutes which can operate deposits and loans business
3. Total liabilities are net of reserves for losses on guarantees, losses on security trades, losses on breach of contracts, and accidental loss.
 4. The calculation formula for EPS mentioned above shall meet the following requirements during measurements:
 - A. Using weighted average shares of common stocks as the basis, instead of issued shares in end of year.
 - B. Any capital increases or treasury stocks trading shall consider its circulation period in calculating weighted average shares.
 - C. Any surplus being transferred into capital increase or additional paid-in capital being transferred to capital increase, the calculation of semi-annual and annual EPS shall be adjusted according to capital increase ratio without considering the issuance period of such capital increase.
 - D. If the preferred stocks are non-convertible cumulative preferred stock, its dividend of current year (whether is distribution is executed or not) shall be deducted from net income or increase the net loss.
 - E. If the preferred stocks are non-cumulative, its dividend shall be deducted from net income; if there was net loss, the adjustment is not needed.
 5. All financial institutions that can provide deposit and loan services including local banks, branches of foreign banks in Taiwan, credit unions, credit departments of fishermen's associations and farmers associations, and trust investment companies.

6. Amount of income equals the sum of interest income and non-interest income.
7. When measuring cash flow analysis, the following requirements shall be met:
 - A. Operational net cash flow represent the operational net cash inflow in the statement of cash flow.
 - B. Capital expenditures stand for the cash outflow of annual capital investment.
 - C. Cash dividend include dividend from common stocks and preferred stock.
 - D. Gross amount of fixed asset equal to the total amount of fixed asset before the deduction of accumulated depreciation.

6.2.1.2 Financial Analysis— IFRSs

Amount Unit : NT\$ Million

Item	Year	2013.3.31
Operating Ability	Loans to deposits ratio (%)	86.73
	Ratio of NPL (%)	0.81
	Interest expenses to average deposit balances (%)	0.85
	Interest income to average loan balances (%)	2.07
	Total assets turnover ratio (times)	0.003
	Operating revenue per employee	0.74
	Earnings per employee	0.12
Profitability	Return on tier 1 capital (%)	1.33
	Return on total assets (%)	0.05
	Return on equity	1.05
	Net profit margin (%)	15.82
	Earnings per share (NT\$)	0.16
Financial Structure	Liabilities to assets ratio (%)	95.16
	Property, plant, and equipment as a percentage of equity (%)	25.98
Growth Rate	Asset growth rate (%)	—
	Earnings growth rate (%)	—
Cash Flow	Cash flow ratio (%)	—
	Cash flow adequacy ratio (%)	—
	Cash flow satisfied ratio (%)	—
Liquidity Reserve Ratio (%)		15.94
Total Secured Loans to Related Parties		981
Total Secured Loans to Related Parties as a Percentage of Total Loans (%)		0.57
Operating Scale	Asset market share (%)	0.55
	Equity market share (%)	0.41
	Deposit market share (%)	0.62
	Loan market share (%)	0.69

Note : 1. The financial information listed above reviewed by our independent auditors, excluding the information of operating scale.



Note : 2. The aforementioned ratios are calculated as follows:

- A. Operating Efficiency
 - (1) Loans to deposits ratio = Total loans / Total deposits
 - (2) Ratio of NPL = Total non-performing loans / Total loans
 - (3) Interest expenses to average deposit balances = Total expenses of deposit interests / Annual average deposit balances
 - (4) Interest Income to average loan balances = Total expenses of loan interests / Annual average loan balances
 - (5) Total assets turnover ratio = Net revenue / Average total assets
 - (6) Operating revenue per employee (note 6)= Net revenue / Total number of employees
 - (7) Earnings per employee = Net income / Total number of employees
 - B. Profitability
 - (1) Return on Tier 1 capital= Income before tax / Average net Tier 1 capital
 - (2) Return on total assets = Net income / Average total assets
 - (3) Return on equity = Net income / Average total equity
 - (4) Net profit margin = Net income / Net revenue
 - (5) Earnings per share =(Profit and loss attributable to the parent company–Preferred stock dividends)/ Weighted average outstanding shares (note 4)
 - C. Financial Structure
 - (1) Liabilities to assets ratio= Total liabilities / Total assets
 - (2) Property, plant, and equipment as a percentage of equity =Property, plant, and equipment / Net equity
 - D. Growth Rate
 - (1) Asset growth rate = (Current total asset – Last year's total asset) / Last year's total asset
 - (2) Earnings growth rate = (Current earnings before tax – Last year's earnings before tax) / Last year's earnings before tax
 - E. Cash Flows (note 7)
 - (1) Cash flow ratio = Cash flows from operating activities / (Due to banks and drafts + commercial bills payable + financial liabilities at fair value through income statement + bills and bonds sold under repurchase agreements + accounts payable in 1 year)
 - (2) Cash flow adequacy ratio = Cash flows from operating activities in the last 5 Years / (Capital expenditure + cash dividends) in the last 5 Years
 - (3) Cash flow satisfied ratio = Cash flows from operating activities / Cash flows from investing activities
 - F. Liquidity Reserve Ratio = Current assets required by the CBC / Liabilities for which the various current reserve shall be provided
 - G. Operating Scale
 - (1) Asset market share = Total assets / Total assets of financial institutes which can operate deposits and loans business (note 5)
 - (2) Equity market share = Total equities / Total equities of financial institutes which can operate deposits and loans business
 - (3) Deposit market share = Total deposits / Total deposits of financial institutes which can operate deposits and loans business
 - (4) Loan market share = Total loans / Total loans of financial institutes which can operate deposits and loans business
3. Total liabilities are net of reserves for losses on guarantees, and accidental loss.
4. The calculation formula for EPS mentioned above shall meet the following requirements during measurements:
- A. Using weighted average shares of common stocks as the basis, instead of issued shares in end of year.
 - B. Any capital increases or treasury stocks trading shall consider its circulation period in calculating weighted average shares.
 - C. Any surplus being transferred into capital increase or additional paid-in capital being transferred to capital increase, the calculation of semi-annual and annual EPS shall be adjusted according to capital increase ratio without considering the issuance period of such capital increase.
 - D. If the preferred stocks are non-convertible cumulative preferred stock, its dividend of current year (whether is distribution is executed or not) shall be deducted from net income or increase the net loss.
 - E. If the preferred stocks are non-cumulative, its dividend shall be deducted from net income; if there was net loss, the adjustment is not needed.
5. All financial institutions that can provide deposit and loan services including local banks, branches of foreign banks in Taiwan, credit unions, credit departments of fishermen's associations and farmers associations, and trust investment companies.
6. Amount of income equals the sum of interest income and non-interest income.
7. When measuring cash flow analysis, the following requirements shall be met:
- A. Operational net cash flow represent the operational net cash inflow in the statement of cash flow.
 - B. Capital expenditures stand for the cash outflow of annual capital investment.
 - C. Cash dividend include dividend from common stocks and preferred stock.
 - D. Gross amount of property, plant, and equipment equal to the total amount of property, plant, and equipment before the deduction of accumulated depreciation.

6.2.2 Capital Adequacy

6.2.2.1 Capital Adequacy—ROC GAAP

Amount Unit : NT\$ Million

Item	Year	Capital adequacy ratio in the Past Five Years						
		2008	2009	2010	2011	2012		
Capital	Tier 1 capital	Common stocks	5,258	5,258	5,258	7,069	7,069	
		Perpetual non-cumulative preferred stock	0	0	0	0	0	
		Non-cumulative subordinated debentures without maturity dates	0	0	0	0	0	
		Capital in advance	0	0	0	0	0	
		Capital surplus (Apart from fixed asset appreciation surplus)	2,542	2,542	2,542	2,018	2,018	
		Legal earnings reserve	2,446	1,582	1,605	1,643	1,278	
		Special earnings reserve	112	0	25	42	0	
		Accumulated earnings	(977)	76	156	(407)	386	
		Minor equity	0	0	0	0	0	
		Other stockholder's equity	(62)	(30)	(61)	(37)	(20)	
		Less : goodwill	0	0	0	0	0	
		Less : unamortized loss on sale of bad credit	0	0	0	0	0	
		Less : capital deduct item	712	959	1,027	715	681	
	Total tier 1 capital	8,607	8,469	8,498	9,614	10,050		
	Tier 2 capital	Perpetual cumulative preferred stock	0	0	0	0	0	
		Cumulative subordinated debentures without maturity dates	0	0	0	0	0	
		Fixed asset appreciation surplus	0	0	0	0	0	
		45% of the unrealized income from financial assets in available-for-sale	16	6	15	16	78	
		Convertible bonds	0	0	0	0	0	
		Business reserve and provision for credit loss	498	121	235	779	828	
		Long term subordinate bonds	1,000	3,800	3,600	2,800	2,000	
		Non-perpetual preferred stock	0	0	0	0	0	
		Total of perpetual non-cumulative preferred stock and non-cumulative subordinated debentures amounting to more than 15% of the tier 1 capital	0	0	0	0	0	
		Less : capital deduct item	712	959	1,027	715	681	
	Total tier 2 capital	802	2,968	2,823	2,880	2,225		
	Tier 3 capital	Short term subordinate bonds	0	0	0	0	0	
		Non-perpetual preferred stock	0	0	0	0	0	
		Total tier 3 capital	0	0	0	0	0	
	Capital		9,410	11,436	11,322	12,494	12,275	
	Risk weighted assets	Credit risks	Standardised approach	98,980	99,788	112,516	119,355	120,795
			Internal rating based approach (IRB)	0	0	0	0	0
			Asset securitization	1,964	1,650	870	613	594
		Operational risks	Basic indicator approach (BIA)	4,492	4,190	4,190	4,048	4,606
Standardised approach / Optional Standardised approach			0	0	0	0	0	
Market risks		Advanced approach	0	0	0	0	0	
		Standardised approach	2,827	1,742	2,910	3,064	3,876	
Risk weighted assets		Internal model approach	0	0	0	0	0	
		Total	108,263	107,369	120,486	127,080	129,871	
Capital adequacy ratio (%)			8.69	10.65	9.40	9.83	9.45	
Tier 1 capital as a percentage of risk weighted assets (%)		7.95	7.89	7.05	7.57	7.74		
Tier 2 capital as a percentage of risk weighted assets (%)		0.74	2.76	2.35	2.27	1.71		
Tier 3 capital as a percentage of risk weighted assets (%)		0.00	0.00	0.00	0.00	0.00		
Common stock's equities as a percentage of total assets (%)		2.86	2.82	2.45	3.16	3.20		

Analyses of capital adequacy ratio change in the last two years :

- The Bank issued 7-year subordinated financial bonds in 2007 and 2009, amount of NT\$ 1 billion and NT\$ 3 billion respectively. The amount which could be included in Tier 2 capital has decreased both NT\$ 0.8 billion respectively in 2011 and 2012 due to approaching maturity.
- The Bank's capital was increased NT\$1.2 billion by cash on Oct. 2011.

Note : 1. The financial information listed above audited by our independent auditors.

2. The aforementioned ratios are calculated as follows:

- Capital base = Tier 1 capital + Tier 2 capital + Tier 3 capital
- Risk weighted assets = Credit risk weighted assets + (Operational risks + Market risks) Capital appropriation × 12.5
- Capital adequacy ratio = Capital base / Risk weighted assets
- Tier 1 capital as a percentage of risk weighted assets = Tier 1 capital / Risk weighted assets
- Tier 2 capital as a percentage of risk weighted assets = Tier 2 capital / Risk weighted assets
- Tier 3 capital as a percentage of risk weighted assets = Tier 3 capital / Risk weighted assets
- Common stock's equities as a percentage of total assets = Common stock's equities / Total assets



Amount Unit : NT\$ Million

Item		Year	Capital adequacy ratio in the Past Five Years (consolidated)					
			2008	2009	2010	2011	2012	
Capital	Tier 1 capital	Common stocks	5,258	5,258	5,258	7,069	7,069	
		Perpetual non-cumulative preferred stock	0	0	0	0	0	
		Non-cumulative subordinated debentures without maturity dates	0	0	0	0	0	
		Capital in advance	0	0	0	0	0	
		Capital surplus (Apart from fixed asset appreciation surplus)	2,542	2,542	2,542	2,018	2,018	
		Legal earnings reserve	2,446	1,582	1,605	1,643	1,278	
		Special earnings reserve	112	0	25	42	0	
		Accumulated earnings	(977)	76	156	(407)	386	
		Minor equity	0	0	0	0	0	
		Other stockholder's equity	(62)	(30)	(61)	(37)	(20)	
		Less : goodwill	0	0	0	0	0	
		Less : unamortized loss on sale of bad credit	0	0	0	0	0	
		Less : capital deduct item	689	937	999	683	642	
	Total tier 1 capital	8,630	8,491	8,526	9,645	10,090		
	Tier 2 capital	Perpetual cumulative preferred stock	0	0	0	0	0	
		Cumulative subordinated debentures without maturity dates	0	0	0	0	0	
		Fixed asset appreciation surplus	0	0	0	0	0	
		45% of the unrealized income from financial assets in available-for-sale	16	6	15	16	79	
		Convertible bonds	0	0	0	0	0	
		Business reserve and provision for credit loss	498	121	235	779	828	
		Long term subordinate bonds	1,000	3,800	3,600	2,800	2,000	
		Non-perpetual preferred stock	0	0	0	0	0	
		Total of perpetual non-cumulative preferred stock and non-cumulative subordinated debentures amounting to more than 15% of the tier 1 capital	0	0	0	0	0	
		Less : capital deduct item	689	937	999	683	642	
	Total tier 2 capital	825	2,990	2,851	2,911	2,265		
	Tier 3 capital	Short term subordinate bonds	0	0	0	0	0	
		Non-perpetual preferred stock	0	0	0	0	0	
		Total tier 3 capital	0	0	0	0	0	
	Capital		9,455	11,482	11,377	12,557	12,354	
	Risk weighted assets	Credit risks	Standardised approach	98,979	99,759	112,503	119,345	120,786
			Internal rating based approach (IRB)	0	0	0	0	0
			Asset securitization	1,964	1,650	870	613	594
		Operational risks	Basic indicator approach (BIA)	4,511	4,209	4,209	4,068	4,632
Standardised approach / Optional Standardised approach			0	0	0	0	0	
Advanced approach			0	0	0	0	0	
Market risks		Standardised approach	2,827	1,742	2,910	3,064	3,876	
		Internal model approach	0	0	0	0	0	
Risk weighted assets		108,281	107,360	120,492	127,090	129,889		
Capital adequacy ratio (%)		8.73	10.69	9.44	9.88	9.51		
Tier 1 capital as a percentage of risk weighted assets (%)		7.97	7.91	7.08	7.59	7.77		
Tier 2 capital as a percentage of risk weighted assets (%)		0.76	2.79	2.36	2.29	1.74		
Tier 3 capital as a percentage of risk weighted assets (%)		0.00	0.00	0.00	0.00	0.00		
Common stock's equities as a percentage of total assets (%)		2.86	2.83	2.45	3.16	3.20		

Analyses of capital adequacy ratio change in the last two years :

- The Bank issued 7-year subordinated financial bonds in 2007 and 2009, amount of NT\$ 1 billion and NT\$ 3 billion respectively. The amount which could be included in Tier 2 capital has decreased both NT\$ 0.8 billion respectively in 2011 and 2012 due to approaching maturity.
- The Bank's capital was increased NT\$1.2 billion by cash on Oct. 2011.

Note : 1. The financial information listed above audited by our independent auditors.

2. The aforementioned ratios are calculated as follows:

- Capital base = Tier 1 capital + Tier 2 capital + Tier 3 capital
- Risk weighted assets = Credit risk weighted assets + (Operational risks + Market risks) Capital appropriation ×12.5
- Capital adequacy ratio = Capital base / Risk weighted assets
- Tier 1 capital as a percentage of risk weighted assets = Tier 1 capital / Risk weighted assets
- Tier 2 capital as a percentage of risk weighted assets = Tier 2 capital / Risk weighted assets
- Tier 3 capital as a percentage of risk weighted assets = Tier 3 capital / Risk weighted assets
- Common stock's equities as a percentage of total assets = Common stock's equities / Total assets

6.2.2.2 Capital Adequacy— IFRSs

Amount Unit : NT\$ Thousand

Item		year	2013. 3.31
Capital	Common stock interests		9,766,788
	Additional tier 1 capital of non-common stock interests		0
	Tier 2 capital		1,623,898
	Capital		11,390,686
Risk weighted assets	Credit risks	Standardised approach	124,173,114
		Internal rating based approach (IRB)	—
		Asset securitization	2,323,544
	Operational risks	Basic indicator approach (BIA)	4,605,539
		Standardised approach / Optional Standardised approach	—
		Advanced approach	—
	Market risks	Standardised approach	4,333,318
		Internal model approach	—
	Risk weighted assets		135,435,515
	Capital adequacy ratio (%)		
Tier 1 capital as a percentage of risk weighted assets (%)			7.21
Common stock interests as a percentage of risk weighted assets (%)			7.21
Leverage ratio (%)			4.01

Note : 1. The information listed above not reviewed by our independent auditors.

2. The aforementioned ratios are calculated as follows

- (1) Capital base = Common stock interests+ Additional tier 1 capital of non-common stock interests + Tier 2 capital
- (2) Risk weighted assets = Credit risk weighted assets + (Operational risks + Market risks) Capital appropriation ×12.5
- (3) Capital adequacy ratio = Capital base / Risk weighted assets
- (4) Tier 1 capital as a percentage of risk weighted assets = (Common stock interests+ Additional tier 1 capital of non-common stock interests) / Risk weighted assets
- (5) Common stock's equities as a percentage of the risk assets = Common stock's equities / total of weighted risk assets
- (6) Leverage ratio= Net Amount of Tier 1 Capital / Total Exposure amount

6.3 Supervisors' Report in the Most Recent Years

Supervisors' Report for Bank of Kaohsiung

Mar.29, 2013

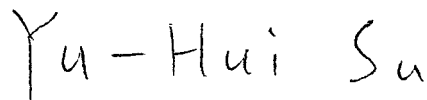
The Board of Directors have compiled and submitted to us the Bank's 2012 Financial Statements, Consolidated Financial Statements and Report of Independent Auditors which are audited by the CPA Shu-Man Tsai and Ling-Wen Huang ,who are members of Crowe Horwath (TW) CPAs, We have completed our examinations and found them to meet the requirements of applicable laws and regulations. This report is hereby prepared in according to Article 219 of the Company Law and submitted for your approval.

Regard to

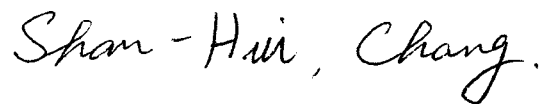
Regular Shareholders' Meeting of the Bank of Kaohsiung

Supervisors:

Yu-Hui Su



Shan-Hui Chang



Tsai Yung Yu



(The content of the report is in conformity with the audit report)

6.4 Financial Report for FY 2012

Crowe Horwath (TW) CPAs
Member Crowe Horwath International

12F, 21 Linshen 2nd Road,
Kaohsiung, Taiwan R.O.C.
TEL: (07)3312133
FAX: (07)3331710

Report of Independent Auditors

The Board of Directors and Shareholders Bank of Kaohsiung Co., Ltd.

We have audited the accompanying balance sheets of Bank of Kaohsiung Co., Ltd. as of December 31, 2012 and 2011, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Guidelines for Certified Public Accountants' Examination and Reports on Financial Statements", and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management. As well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to the first paragraph present fairly, in all material respects, the financial position of the Bank of Kaohsiung Co., Ltd. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for years then ended in conformity with the "Rules Governing the Preparation of Financial Statements of Public Issuing Banks" and generally accepted accounting principles in the Republic of China.

As stated in Note 3 to the financial statement, the Bank has adopted the amended Statement of Financial Accounting Standards No. 34 on "Accounting Principles for Financial Products" as of January 1, 2011. For the effect caused by the changes in accounting principles to the financial statements 2011, please see Note 3.

We have also audited the consolidated financial statements of Bank of Kaohsiung as of FY 2012 and 2011, and have issued the auditor's reports with unqualified opinion.

Crowe Horwath (TW) CPAs
CPA : Shu-Man Tsai

Tsai Shu Man

CPA : Ling-Wen Huang

HUANG LING WEN

Republic of China Mar. 28, 2013
Authorized: Jin-Kuan-Cheng-Shen-No.10200032833

(The content of the report is in conformity with the audit report)



Financial Information

BANK OF KAOHSIUNG CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2012 and 2011

Unit : NT\$ Thousand

A/C No	ASSETS		Note	2012.12.31		2011.12.31		Comparison (%)	A/C No	LIABILITIES & STOCKHOLDERS' EQUITY		Note	2012.12.31		2011.12.31		Comparison (%)
	Account	Amount		Amount	Amount	Account	Amount			Amount	Amount						
11000	Cash & cash equivalents		4.1	\$ 3,166,781	\$ 2,840,102	21000	Due to CBC & banks	\$ 11,511,596	11.50	21000	4.3	\$ 11,935,679	\$ 11,511,596	3.68			
11500	Due from CBC and lend to banks		4.2	24,635,414	24,134,482	22000	Financial liabilities at fair value through income statement	3,837	2.08	22000	4.3	613	3,837	(84.02)			
12000	Financial assets at fair value through income statement		4.3	1,459,442	1,615,849	22500	Bills and bonds sold under repurchase agreements	103,207	(9.68)	22500	4.12	68,914	103,207	(33.23)			
12500	Bills and bonds purchased under resale agreements			4,967,234	5,787,341	23000	Accounts payable	3,379,348	(15.50)	23000	4.12	3,955,574	3,379,348	17.05			
13000	Accounts receivable - net		4.4	973,436	981,170	23500	Deposits & remittances	193,944,262	(0.79)	23500	4.13	189,552,300	193,944,262	(2.26)			
13500	Discounts & loans - net		4.5	162,044,345	166,215,870	24000	Financial bonds payable	4,000,000	(2.51)	24000	4.14	4,000,000	4,000,000	-			
14000	Available-for-sale financial assets - net		4.6	19,137,095	11,748,424	25000	Pension payable	304,726	62.89	25000	4.15	353,864	304,726	16.13			
14500	Held-to-maturity financial assets - net		4.7	-	5,566,536	25500	Other financial liabilities	195,150	(100.00)	25500	4.16	152,116	195,150	(22.05)			
15000	Equity method's investments - net		4.8	79,062	62,936	29500	Other liabilities	103,363	25.62	29500	4.17	195,659	103,363	89.29			
15500	Other financial assets - net		4.9	1,724,348	1,830,973	20000	Total liabilities	\$ 210,214,719	(5.82)	20000		\$ 213,545,489	\$ 213,545,489	(1.56)			
	Property and equipment cost						Stockholders' equity										
18501	Land			\$ 1,224,286	\$ 1,231,286	31001	Capital	\$ 7,069,476	(0.57)	31001	4.18	\$ 7,069,476	\$ 7,069,476	-			
18521	Buildings			1,218,188	1,239,159	31500	Capital surplus	2,017,724	(1.69)	31500	4.19	2,017,724	2,017,724	-			
18531	Machinery & equipment			621,583	622,593		Retained earnings		(0.16)								
18541	Transportation equipment			24,558	22,835	32001	Legal reserve	\$ 1,277,895	7.54	32001		\$ 1,277,895	\$ 1,642,841	(22.21)			
18551	Miscellaneous equipment			92,049	95,488	32003	Special reserve	41,937	(3.60)	32003		-	41,937	(100.00)			
18561	Leasehold improvement			232,563	232,563	32011	Unappropriated earnings	386,202	-	32011	4.20	386,202	(406,883)	194.92			
185x1	Total cost			\$ 3,413,227	\$ 3,443,924	32000	Total retained earnings	\$ 1,664,097	(0.89)	32000		\$ 1,664,097	\$ 1,277,895	30.22			
185x4	Less : accumulated depreciation			(1,277,998)	(1,241,478)		Other stockholders' equity		2.94								
18500	Property and equipment cost - net		4.10	\$ 2,135,229	\$ 2,202,446	32523	on unrealized income on available-for-sale financial assets	\$ 154,401	(3.05)	32523		\$ 154,401	\$ (2,384)	6,576.55			
19000	Intangible assets			\$ 50,100	\$ 62,565	32599	Other adjustment on stockholders' equity	487	(19.92)	32599		487	521	(6.53)			
19500	Other assets		4.11	748,418	769,027	32500	Total other stockholders' equity	\$ 154,888	(2.68)	32500		\$ 154,888	\$ (1,863)	8,413.90			
10000	Total assets			\$ 221,120,904	\$ 223,908,721	30000	Total stockholders' equity	\$ 10,906,185	(1.25)	30000		\$ 10,906,185	\$ 10,363,232	5.24			
							Total liabilities & stockholders' equity	\$ 223,908,721				\$ 223,908,721	\$ 223,908,721	(1.25)			

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu

BANK OF KAOHSIUNG CO., LTD.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

Unit : NT\$ Thousand

A/C No	Item	Note	2012.1.1-2012.12.31	2011.1.1-2011.12.31	Comparison (%)
41000	Interest income		\$3,999,032	\$ 3,750,650	6.62
51000	Interest expense		(1,895,887)	(1,762,374)	7.58
	Net interest revenue		\$2,103,145	\$1,988,276	5.78
	Net non-interest revenue				
49100	Net commission & service fees	4.21	\$355,617	\$359,449	(1.07)
49200	Gain (loss) on financial assets and liabilities at fair value through income statement	4.3	(12,711)	118,705	(110.71)
49300	Gain (loss) on available-for-sale financial assets		135,974	2,291	5,835.14
49400	Realized (loss) profit from financial assets held to maturity	4.7	264	80,275	(99.67)
49500	Gain (loss) on equity method investments	4.8	49,808	37,429	33.08
49600	Gain (loss) on foreign exchange		75,309	(105,552)	171.35
49700	Gain (loss) on reversal of asset impairment	4.9	(95,029)	(418,200)	(77.28)
48095	Recovery of credit loss and overdue loan.		319,474	216,041	47.88
49800	Other net non-interest revenue (loss)		52,481	39,879	31.60
4xxxx	Net revenue		\$2,984,332	\$2,318,593	28.71
51500	Credit loss expenses	4.5	(\$579,363)	(\$898,790)	(35.54)
	Operating expenses				
58500	Personnel service expenses	4.22	(\$1,350,744)	(\$1,244,398)	8.55
59000	Depreciation & amortization	4.22	(76,034)	(83,432)	(8.87)
59500	Other operating & administrative expenses		(559,040)	(520,654)	7.37
61001	Income (loss) before tax		\$419,151	(\$428,681)	197.78
61003	Income tax (expenses) benefit	4.23	(32,949)	(4,662)	606.76
69005	Net income (loss)		\$386,202	(\$433,343)	189.12
69500	Basic earnings per share (NT\$)				
	Income (loss) before tax	4.24	\$0.59	(\$0.71)	183.10
69501	Income (loss) after tax	4.24	\$0.55	(\$0.71)	177.46

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu



BANK OF KAOHSIUNG CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

Unit : NT\$ Thousand

Item	Retained Earnings				Adjustments on Equity			Sum	
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized income on financial products	Other		
Balance, January 1, 2011	\$ 5,257,982	\$ 2,542,403	\$ 1,604,713	\$ 25,034	\$ 155,551	\$ 1,785,298	(\$ 824)	(\$ 26,611)	\$ 9,559,072
Capital increase by capital reserve	525,798	(525,798)	—	—	—	—	—	—	—
Employees' stock bonus	6,826	1,119	—	—	(433,343)	(433,343)	—	—	7,945
Net income (loss)	—	—	—	—	—	—	—	—	(433,343)
Appropriation & distribution of earnings (Note1)	—	—	—	—	—	—	—	—	—
Legal reserve	—	—	38,128	—	(38,128)	—	—	—	—
Special reserve	—	—	—	1,577	(1,577)	—	—	—	—
Cash dividend	—	—	—	—	(10,516)	(10,516)	—	—	(10,516)
Capital increase by earnings	78,870	—	—	—	(78,870)	(78,870)	—	—	—
Capital increase by cash	1,200,000	—	—	—	—	—	—	—	1,200,000
Increase (Decrease) on unrealized income on available-for-sale financial assets	—	—	—	—	—	—	23,403	—	23,403
Other(Sub Note 10 and 20)	—	—	—	15,326	—	15,326	1,345	—	16,671
Total on change	\$ 1,811,494	(\$ 524,679)	\$ 38,128	\$ 16,903	(\$ 562,434)	(\$ 507,403)	\$ 1,345	\$ 24,748	\$ 804,160
Balance, December 31, 2011	\$ 7,069,476	\$ 2,017,724	\$ 1,642,841	\$ 41,937	(\$ 406,883)	\$ 1,277,895	\$ 521	(\$ 1,863)	\$ 10,363,232
Net income (loss)	—	—	—	—	386,202	386,202	—	—	386,202
Appropriation & distribution of earnings (Note2)	—	—	—	—	—	—	—	—	—
Legal reserve be used to offset a deficit	—	—	(364,946)	—	364,946	—	—	—	—
Special reserve be used to offset a deficit	—	—	—	(41,937)	41,937	—	—	—	—
Increase (Decrease) on unrealized income on available-for-sale financial assets	—	—	—	—	—	—	156,785	—	156,785
Other(Sub Note 10 and 20)	—	—	—	—	—	—	(34)	—	(34)
Total on change	\$ —	\$ —	(\$ 364,946)	(\$ 41,937)	\$ 793,085	\$ 386,202	(\$ 34)	\$ 156,785	\$ 542,953
Balance, December 31, 2012	\$ 7,069,476	\$ 2,017,724	\$ 1,277,895	\$ —	\$ 386,202	\$ 1,664,097	\$ 487	\$ 154,888	\$ 10,906,185

Note1 : The amount of both Directors & supervisors' remunerations and Employees' bonus were 2,000 thousand and 8,000 thousand respectively.

Note2 : The amount of both Directors & supervisors' remunerations and Employees' bonus were zero.

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu

BANK OF KAOHSIUNG CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

Unit : NT\$ Thousand

Item	2012.1.1-2012.12.31	2011.1.1-2011.12.31
Cash flows from operating activities		
Net income (loss)	\$386,202	(\$433,343)
Adjustments		
Depreciation	60,647	67,870
amortization	15,387	15,562
Provision for credit loss (change over to revenue)	579,363	898,790
Financial assets premium (discount) amortization	10,302	(7,761)
Recognized investment loss (gain) by equity method	(49,808)	(37,429)
Collections cash dividends by equity method	33,682	29,539
Loss (gain) on sale and discard of property and equipment	(11,483)	153
Loss (gain) on sale investments	(116,997)	(74,899)
Loss (gain) on unrealized evaluation of financial assets and liabilities	(3,536)	1,088
Loss on Financial assets impairment	95,029	418,200
Total on adjustments	<u>\$612,586</u>	<u>\$1,311,113</u>
Net changed of Operating assets and liabilities		
Net changed of Operating assets:		
Decrease (increase) on financial assets for trading purposes	\$140,472	(\$523,801)
Decrease (increase) in accounts receivable	(21,269)	(3,035)
Decrease (increase) on deferred income tax assets	19,288	(8,099)
Total on changed of Operating assets	<u>\$138,491</u>	<u>(\$534,935)</u>
Net changed of Operating liabilities:		
Increase (decrease) in accounts payable	\$576,226	\$560,733
Increase (decrease) on accrued pension debt	49,138	51,526
Total on changed of Operating liabilities	<u>\$625,364</u>	<u>\$612,259</u>
Total on changed of Operating assets and liabilities	<u>\$763,855</u>	<u>\$77,324</u>
Net cash provided by / (used in) operating activities	<u>\$1,762,643</u>	<u>\$955,094</u>
Cash flows from investing activities:		
Acquisition of Available-for-sale financial assets	(\$46,079,702)	(\$22,678,301)
Proceeds from sale of Available-for-sale financial assets	44,593,555	16,029,754
Proceeds from the disposal of investments in bonds without an active market	20,837	—
Due repays principal of bond products investment without market price	—	790,425
Acquisition of Held-to-Maturity financial assets	(913,787)	(744,568)
Proceeds from sale of Held-to-Maturity financial assets	107,632	1,704,575
Repayment of principal upon maturity of held-to-maturity financial assets	749,786	1,268,480
Acquisition of property and equipment	(13,294)	(33,810)
Proceeds from sale of property and equipment	31,347	121
Increase on deferred expenses	(168)	(6,430)
Acquisition in intangible assets	(610)	(16,952)
Decrease (increase) in due from CBC and lend to banks	(500,932)	2,739,064
Decrease (increase) in discounts & loans	3,627,114	(4,925,768)
Decrease (increase) on bills and bonds purchased under resale agreements	911,107	(3,087,278)
Decrease (increase) in other financial assets	(772)	7,761
Decrease (increase) in other assets	(1,076)	(9,285)
Net cash provided by / (used in) investing activities	<u>\$2,531,037</u>	<u>(\$8,962,212)</u>
Cash from financial activities		
Increase (decrease) on bills and bonds sold under reprurchase agreements	(\$34,293)	(\$37,538)
Increase (decrease) in other financial liabilities	(43,034)	(12,139)
Increase (decrease) in other liabilities	78,205	8,237
Cash dividend	—	(10,516)
Capital increase by cash	—	1,200,000
Increase (decrease) in due to CBC & banks	424,083	(1,093,883)
Increase (decrease) in deposits & remittances	(4,391,962)	8,777,115
Net cash (used in) / provided by financial activities	<u>(\$3,967,001)</u>	<u>\$8,831,276</u>
Net increase (Decrease) in cash & cash equivalents	<u>\$326,679</u>	<u>\$824,158</u>
Balance of cash & cash equivalents at the beginning of year	2,840,102	2,015,944
Balance of cash & cash equivalents at the end of year	<u>\$3,166,781</u>	<u>\$2,840,102</u>
Supplementary disclosures of cash flow information		
Interest paid during the period excluding interest capitalized	<u>\$1,912,627</u>	<u>\$1,700,596</u>
Income tax paid	<u>\$31,136</u>	<u>\$23,631</u>
Loss (gain) on unrealized evaluation of financial products	<u>(\$156,785)</u>	<u>(\$23,403)</u>
Held-to-maturity financial assets reclassified as available-for-sale financial assets	<u>\$5,631,013</u>	<u>—</u>

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu

BANK OF KAOHSIUNG CO., LTD.
Notes to Financial Statements
Dec.31, 2012 and 2011

(Expressed in New Taiwan Thousand Dollars Unless Stated Otherwise)

1. HISTORY AND ORGANIZATION

1.1. Bank of Kaohsiung Co., Ltd. is a commercial bank formed and registered in accordance with the provisions of the Banking Law of the Republic of China. The Bank obtained its registration approval in December 1981 and the Certificate of Business Registration in January the following year. The Bank's main business activities are as follows:

- A. Agent for the Kaohsiung City Treasury.
- B. Management of Kaohsiung Municipal Bond.
- C. Other relevant commercial bank businesses authorized under the Banking Law.
- D. Savings and trust operations.
- E. Other relevant businesses authorized by the Central Competent Authority.

The Bank operates with four departments under the Head Office namely, Business, Municipal Treasury, International Banking, Trust and Wealth Management departments with an additional of 35 local branches and mini- branches and an Offshore Banking Unit (OBU).

Taiwan Stock Exchange Corporation (TSE) approved the Bank' application to seek listing on the Taiwan Stock Exchange and issued the approval document (Tai Jeng (87) Shan No. 11281) on April 27, 1998. The Bank was officially listed on the Taiwan Stock Exchange on May 18, 1998.

The proposal for the privatization of the Bank was approved upon assessment by the Task Force for the Privatization of Public-Owned Enterprises in its 16th Meeting and the proposal was executed on August 3, 1999 in accordance with approval document (Kaohsiung City Government Tsai 3 No. 23963). The offering of the Bank's shares to the public as part of the privatization policy of government-owned banks came into effect on August 17, 1999 upon approval by the Securities and Futures Commission of the Ministry of Finance. The Bank was officially reorganized as a private enterprise on September 27, 1999.

1.2 The Bank employs a total of 942 employees as of December 31, 2012 and 939 employees as of December 31, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with the "Rules Governing the Preparation of Financial Statements of Publicly Issued Banks" and generally accepted accounting principles in the Republic of China. When preparing the financial statements in accordance with the said rules and principles, the Bank had to provide the provision for credit loss, depreciation of property, asset impairment and reserve for guarantee based on reasonable estimated amounts. Because the estimation is usually made under uncertain circumstances, it might be different from the actual result.

Due to the characteristics of the banking business, it is more difficult to ascertain the business turnover. Therefore, the Bank did not categorize its assets and liabilities into current or non-current items, provided that the assets and liabilities were categorized by nature and in the order of corresponding liquidity. The analyses on maturity of assets and liabilities is shown in Note10.1-(2)-C.

Summary of significant accounting policies of the Bank is as follows :

2.1 Basis of Financial Statements

The accompanying financial statements include the accounts of the head office, the OBU and all branches and representative offices. All inter-office balances and transactions have been eliminated.

2.2 Foreign Currency transaction

Transactions of non-derivative products dominated in foreign currency are recorded in the amount converted into NTD at the interest rate applicable when the transactions take place. The loss or gain on exchange or settlement of assets and liabilities denominated in foreign currency arising from different exchange rates is recorded as the income in the year of exchange or settlement. The balance of assets and liabilities denominated in foreign currency on the balance sheet date shall be converted at the exchange rate on the same date. The conversion differences, if any, shall be recorded as the income for the period, provided that the conversion differences of equity products that are financial assets in available-for-sale shall be recorded as the adjustment item of shareholders' equity, and the conversion differences of equity products that are evaluated based on cost shall be evaluated at the historical exchange rate on the date of transaction.

2.3 Financial Products at Fair Value through Income Statement

Such products include financial assets or liabilities for the purpose of transactions, and the financial assets or liabilities designated to be evaluated at fair value and recognized income based on changes in fair value when they are recognized originally. The Bank recognizes a financial asset or a financial liability on its balance sheet when the Bank becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Bank has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled, or expired.

When they are recognized originally, they should be evaluated based on fair value plus the trading cost for acquisition or issue, and in the following evaluation, they shall be evaluated based on fair value and recognize the income based on changes of fair value. The accounting applicable on the date of transaction shall apply when financial assets are purchased or sold according to customary transactions.

Derivative products which fail to comply with hedging accounting shall be classified as the financial assets or liabilities for the purpose of transaction. When fair value is positive, they shall be recorded as financial assets. When fair value is negative, they shall be recorded as financial liabilities.

Basis of fair value: the closing price on balance sheet date in the case of listed (OTC) securities; the value of net assets on balance sheet date in the case of beneficiary certificates for open-end funds; the reference price of GTSM on balance sheet date for government bonds; the fair value evaluated based on evaluation method in the case of financial products without market price.

Financial assets or liabilities at fair value through income statement are combined products, and in order to remove or mitigate the inconsistency in the accounting materially, the Bank will state the changes of fair value of financial assets or liabilities with inconsistent accounting as income in the original recognition. According to the Bank's risk management policy and a portfolio of financial assets, financial liabilities and combination thereof managed by the investment strategy, the fair value shall be applied in measurement.

2.4 Bills and Bonds Sold under Agreements

Bills and bonds purchased under re-sale agreement refer to the amount payable to the trading counterpart actually, which refer to the financing transaction. Bills and bonds sold under re-purchase agreement refer to the amount acquired from the trading counterpart actually. The relevant interest income or expenditure is recognized on an accrual basis.

2.5 Overdue Accounts

According to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due / Non-performing Loans" of Banking Bureau, FSC, loans or other credit extensions which are not repaid when due may be translated into the overdue accounts together with estimated interest receivable subject to the approval of the Commit of NPL guiding team.

The overdue accounts translated from loans are recorded under the title of discounts and loans. Any overdue accounts other than those translated from loans (e.g. translated from guarantee, acceptance and credit card) shall be recorded under the title of other financial assets.



2.6 Provision for Credit Loss & Reserve for Guarantee

Before January 1, 2011, the Bank to evaluate the possible loss of potential risks of certain uncollectible credit and entire credit portfolio and provide credit loss and reserve for guarantee, in terms of discounts and loans, accounts receivable and other financial assets (inward remittance and other overdue accounts), and balances of the various guarantees.

As of January 1, 2011, the Bank first evaluated the impairment on loans and receivable accounts to determine whether there was any objective evidence showing impairment on significant individual loans and receivable accounts. If there was any objective evidence showing such impairment, the impairment shall be evaluated individually. If the other objective evidence showed impairment on non-significant individual loans and receivable accounts and non-impairment on individual loans and receivable accounts, the characteristics with similar credit risk would be included the asset portfolio and the impairment on the portfolio should be evaluated individually. The objective evidence showing impairment might include:

- (1) There are obvious financial problems confronting the debtor; or
- (2) Overdue discount and loans and receivable accounts; or
- (3) The debtor is likely to wind up, or proceed with financial reorganization.

As assessed by individual items, some of the loans and receivables were not impaired. As such assessment of impairment shall be made on the basis of the portfolio. Objective evidence indicating the impairment of the portfolio of loans and receivables may include the experience of the Bank in collection in the past, the increase of the number of accounts in deferred payment, and observable changes in the national or regional economic situations pertinent to the default of the loans and receivables.

The amount recognized for impairment shall be the difference between the book value of the asset and the anticipated cash flow volume (which reflected the influence of the collaterals or guarantee) and the value of the loans and receivables discounted at the initial interest rate. The book values of loans and receivables shall be adjusted with reference to the provisions for bad debts.

In accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due / Non-performing Loans", subject to the collectability, the assets can be classified as special mention, collectable assets, assets which it is difficult to be collected, and assets unlikely to be collected, are stated at the total of 2%, 10%, 50% and all of the balance of the individual credit (exclusive of government's credit). Effective Jan. 1, 2011 the provision for bad debts and the minimum provision for guarantee liability shall be recognized at 0.5% of the aforementioned non-performing loan assets at standard rate plus the balance of normal loans (exclude the balance of loans to government institutions).

The Bank offsets credit loss according to the evaluated collectibility of overdue accounts and overdue loans and value of collateral subject to the approval of the Board of Directors used to offset bad debt reserve. Recovery of writer-off credit loss shall be stated as recovery income on credit loss, under other non-interest revenues.

2.7 Available-for-sale Financial Assets

When originally recognized, the available-for-sale financial assets are evaluated on fair value plus the trading cost for acquisition or issue, and in the following evaluation, they shall be evaluated based on fair value and change of the value thereof is recorded as the adjustment item of shareholders' equity. Cumulative gain or loss is recorded as the income for the period when the financial assets are excluded. The accounting applicable on the date of transaction shall apply when financial assets are purchased or sold according to customary transactions.

Dividends shall be recognized as income on the ex-dividend day or date of resolution made by shareholders' meeting, provided that the net income declared prior to investment shall be deducted from the investment cost in equity products. Stock dividends are not treated as investment gains and are recorded only for the number of additional shares received. The cost per share is re-calculated based on the increased shareholding. The margin between the amount of liability product recognized originally and matured amount is recognized as the income for the period based on interest amortized under interest method (in the case of minor margin, the straight line method shall apply).

If there is objective evidence showing impairment, it shall be recognized as impairment loss. If the impairment loss decreases thereafter, the decrease on impairment loss of the equity products in available-for-sale is

recognized as the adjustment item of shareholders' equity. If the decrease on impairment loss of liability product in available-for-sale is apparently related to the events occurring after recognition of impairment, it shall be reversed and recognized as the income for the period.

2.8 Held-to-Maturity Financial Assets

Held-to-Maturity financial assets are evaluated based on the amortized cost under interest method (in the case of minor difference, straight line method). When they are recognized originally, they should be evaluated based on fair value plus the trading cost for acquisition or issue, and stated as income in the case of elimination, value impairment or amortization. The accounting applicable on the date of transaction shall apply when financial assets are purchased or sold according to customary transactions.

If there is objective evidence showing impairment, it shall be recognized as impairment loss. If the impairment loss decreases thereafter and obviously relates to the events subsequent to recognition of impairment, it shall be reversed and stated as the income for the period, provided that the reversal shall not make the book value more than the cost minus the amortization in the case of no recognition of impairment.

2.9 Long-Term Investments in Equity Method

Long-term investments are accounted for using the equity method while the Bank owns at least 20% of the voting rights of the investee companies or the Bank has significant influence over the investee companies' operational decisions.

When equity is obtained or equity method is firstly applied, the differences between investment cost and net equity value shall be amortized averagely within five years. However, as of Jan. 1, 2006, according to the amended Statement of Financial Accounting Standards, the investment cost shall be analyzed and processed, and the investment cost in excess of identifiable fair value of net assets shall be stated as goodwill. The goodwill will not be amortized, provided that it is necessary to conduct impairment test periodically every year. If some extraordinary circumstances or changes in environment show that the goodwill is likely to be impaired, it is also necessary to conduct impairment test. If the identifiable fair value of net assets exceeds the investment cost, the differences thereof shall be decreased according to the fair values of non-current assets (financial assets, assets to be disposed of, deferred income tax assets and prepaid pension fund and other pension payments not valued under equity method). If there is still a difference, it shall be stated as extraordinary income. As of Jan. 1, 2006, the balance of long-term equity investment under equity method which has not yet been amortized shall be treated as goodwill and will not be amortized, if the investment cost exceeds the net value of the acquired equity. The difference between the original investment cost and net value of equity shall be amortized within the residual years continuously, in the case of deferred loans.

It is necessary to evaluate whether there is any sign for impairment on balance sheet date. If there is objective evidence showing impairment, it shall be recognized as impairment loss. The long-term equity investment with significant impact but without controlling power shall be evaluated based on the book value of the individual investment.

The income generated from transactions between the Bank and the investee evaluated under equity method which has not yet been realized should be deferred, and not recognized until the year in which it is realized. Where the income is generated from depreciated or amortized assets, it should be recognized year by year according to their useful years.

The Bank will evaluate the investee with controlling power based on equity method, and will prepare consolidated financial statements on June 30 and Dec. 31 every fiscal year. Further, this Bank also complies with the official letter under Ching-Kuan-Cheng-6-Tze No. 0960034217 which ordered that all of the listed (OTC) companies shall also prepare the consolidated financial statements for Q1 and Q3 as of 2008.

2.10 Other Financial Assets

The financial assets evaluated based on cost are the investment in equity products of which the fair value can not be measured, including unlisted (non-OTC) stocks and emerging stocks, which are evaluated based on the cost originally recognized. If there is any objective evidence showing impairment, it should be recognized as impairment loss. The impairment loss should not be reversed.



The bond investment without market price refers to the bond investment without public quotation and subject to fixed or decidable amount, which is evaluated based on amortized cost. The accounting principles applicable to it are similar to those applicable to Held-to-Maturity financial assets, provided that it may be disposed of free from any restrictions. If there is objective evidence showing impairment on the value of financial assets carried at cost after amortization, it shall be recognized as impairment loss. If the impairment loss decreases thereafter and is apparently related to the events occurring after recognition of impairment, it shall be reversed and recognized as the current revaluation gain, provided that such reversal shall not cause the book value of the assets to exceed the cost after amortization under unrecognition of impairment loss.

The overdue accounts other than those re-stated from loans shall be measured at the net after original cost less allowance for bad debt.

Derivative financial products for hedging are evaluated based on fair value, and the risks based on which the price thereof is changed are stated as the income for the period or adjustment items under the title of shareholders' equity.

2.11 Property and Equipment Cost

Property and equipment cost are booked at the cost at the time of construction or acquisition. The expenditures for substantial improvement and betterment will be capitalized and booked as fixed assets. The expenditure for general repair and maintenance will be book as expense.

For the accumulated depreciation of property and equipment cost, except if rental improvement is depreciated in five years or the rental period, whichever is shorter, and the rest is depreciated at the cost with one-year residual value reserved and calculated in accordance with the useful years stipulated by Income Tax Law and the Straight Line Method. If the assets remain in use at the end of the estimated useful years, they are to be depreciated in accordance with the estimated residual useful years and the book value. If the assets are not remaining in use, they are to be valued in accordance with the net cash value or book value, whichever is lower, and transferred to the proper account thereafter. Upon the disposition of property and equipment cost, the book value and accumulated depreciation accounts are to be posted and transferred accordingly. The gain / loss from the sales of property and equipment cost is to be booked in the Income Statement of the year.

2.12 Deferred Expenses

Deferred expenses are stated at the cost of acquisition, and amortized according to the useful years under straight line method.

2.13 Intangible Assets

The expenses in computer software shall be amortized averagely within 5 years as of the month when they are incurred.

2.14 Pension Plan

Since 1998, the Bank has set up a defined pension plan covering all regular employees pursuant to the provisions of the Statement of Financial Accounting Standards No. 18 "Accounting for Pensions".

Because of its privatization on September 27, 1999, the Bank made full payment of its entire pension obligations to all employees (including retired, terminated and retained) based on their service years pursuant to the relevant regulations. Retained employees' service years will start afresh and the regulations governing the pension plan prescribed by the Labor Standards Law will apply. The Bank computes the net pension cost based on an actuarial valuation.

The retirement pension confirmed to be contributed pursuant to the rules of retirement should be recognized as the current period expenses in the duration of the employee's service.

2.15 Reserve for Transaction Loss

According to the "Regulations Governing Securities Firms", if the gain on the securities firm's own transaction of marketable securities exceeds the loss thereon, it shall provide 10% of the excess as the reserve for transaction loss per year, and offset against the loss in the month when net loss on its transaction of marketable securities takes place, provided that if the cumulative provision has amounted to NT\$200,000,000, it is not necessary to provide such reserve any longer.

In accordance with FSC Jin-Guan-Zheng-Quan Directive No. 0990073857, effective January 11, 2011, provisions of “Reserve for transaction loss” and “Reserve for default loss” by securities firms should be deleted, and the “Reserve for transaction loss” and “Reserve for default loss” already provided at the end of December 2010 should be transferred to special reserve. After the transfer, the reserve should be used to offset a deficit. Shall not be used other than appropriating half of this reserve to increase paid-in capital.

2.16 Employee Bonus and Remuneration to Directors/Supervisors

This Bank estimated the employee bonus and remuneration to directors/supervisors after January 1, 2008 according to the official letter under (96) Chi-Mi-Tze No. 052 of Accounting Research and Development Foundation in Taiwan, and also stated the employee bonus and remuneration to directors/supervisors as the accounting titles of operating cost or operating expenses by the nature of the bonus and remuneration. In the event of any difference in the resolution made by shareholders’ meeting and the estimated figures in the financial statements, it shall be identified as the variance in estimation and stated in the current income statements.

2.17 Recognition of Interest Income and Service Fees

Discounts and loans are recorded into the account by outstanding principal, exclusive of unearned income. The interest income is recognized on an accrual basis. If any overdue credit is unlikely to be repaid upon evaluation, the principal and income receivable shall be stated as overdue accounts, and the interest receivable should not be stated as interest income until it is realized. Pursuant to the Regulations of FSC, interest on loans or credits extended by the Bank to borrowers for the purpose of overcoming financial difficulties and where loan extension agreements have been signed shall be classified as deferred income from the date of recognition provided that both parties agree to the recording of such interest. The interest revenue on those loans is recognized only upon collection.

Service fees are recorded as income when received or when the services are rendered.

2.18 Income Tax

According to FAS No. 22, “Accounting for Income Tax,” tax is provided based on accounting income after adjusting for permanent differences and inter-and intra-period allocations. The income tax effect of taxable temporary differences was recorded as a deferred income tax liability; losses available for carry forward and income tax credits were recorded as deferred income tax assets, for which a valuation allowance is provided for deferred tax assets that are not certain to be realized.

Overestimate or underestimate provision of previous year’s income tax liabilities is included in current year’s income tax as adjustment.

An additional 10% income tax on earnings is included as expense in the year when the stockholders resolved to retain the earnings.

According to FAS No. 12, “Accounting for income tax credits”, the Bank’s income tax credits generated from the acquisition of eligible equipment or technology, expenses for research and development and losses carried forward are recognized in the period when the tax credits arise.

The “Income Basic Tax Act” was enforced as of January 1, 2006. According to the Act, the payable income tax for the then year should be the higher of the basic tax after the taxable income calculated pursuant to the Income Tax Law including the tax benefits provided under the Income Tax Law and other laws multiplies by the tax rate (10%) set by the Executive Yuan, and the tax calculated pursuant to the Income Tax Law. The Bank has included its effect in the income tax for the then period.

Deferred assets or liabilities are recalculated for any amendments of tax regulations on the date of announcement. Differences arising from the tax law amendments are recognized as expenses for the current period.

2.19 Asset Impairment

Where some environmental change or incident reflects that the recoverable amount for the assets owned by the company is less than their book value, the company should recognize the impairment loss. The recoverable amount means the higher of the net fair value or value in use of an asset. The net fair value means the collectable net amount upon disposal of an item of assets in a fair transaction, and the value in use means the discounted cash flow estimated to be produced by an asset in its life circle.

When the loss of assets recognized in the previous year doesn’t exist any longer, such loss may be reversed insofar as it does not exceed the amount of loss provided in the previous year. The recognized loss of goodwill should not be reversed.

2.20 Operation Departments

An enterprise consists of operation departments engaged in the operating activities that might generate income and incur expenses (including the income and expenses generated in the intra-departmental transactions in the enterprise). The operating results of operating departments shall be rechecked by the operation policy makers periodically for determination of the policy to allocate resources to the relevant departments and appraisal of the departments' performance. Meanwhile, financial statements are also prepared separately by operating department.

3. REASONS AND IMPACTS OF ACCOUNTING PRINCIPLE CHANGES

3.1 Accounting for financial instruments:

As of Jan. 1, 2011, the Bank has applied 3rd Amendments to the Statement of Financial Accounting Standard No. 34 "Accounting Principles of Financial Products". According to the amended provisions, the loans and receivable accounts originally stated shall apply the requirements about recognition of loans and receivable accounts, subsequent evaluation and impairment referred to in the Statement. Such accounting principle change resulted in the decrease in the Bank's net profit after tax by NT\$727,041 thousand and decrease in EPS after tax by NT\$1.20 in 2011.

3.2 Disclosure of information by operation department:

As of January 1, 2011, the Bank has adopted the Statement of Financial Accounting Standards No. 41 "Disclosure of Information by Operation Department". According to the Statement, the enterprise shall disclose the information helpful for users of the financial statement to evaluate the business activities conducted by the enterprise and the nature of economic environment under which the enterprise operates and financial effect thereof. The Bank decides and expresses the operation department based on the information provided to the decision policy maker internally. The Statement also replaces the Statement of Financial Accounting Standards No. 20 "Disclosure of financial information by department". Notwithstanding, said changes in the accounting principles would not the effect of the financial statement 2011 without income/loss.

3.3 In accordance with FSC Jin-Guan-Zheng-Quan Directive No. 0990073857, effective January 11, 2011, provisions of "Reserve for transaction loss" and "Reserve for default loss" by securities firms should be deleted. Such accounting principle change did not produce any significant impact to the Bank's financial statements 2011.

4. EXPLANATION ON IMPORTANT ACCOUNTS

4.1 CASH & CASH EQUIVALENTS

Item	2012.12.31	2011.12.31
Cash on hand	\$1,182,836	\$1,036,534
Cash on hand-Foreign currency	151,244	175,802
Due from banks	384,838	455,406
Checks for clearance	1,447,863	1,172,360
Total	\$3,166,781	\$2,840,102

4.2 DUE FROM CBC AND LEND TO BANKS

Item	2012.12.31	2011.12.31
Due from CBC-Reserve for deposits -Type A	\$2,665,825	\$4,834,242
Due from CBC-Reserve for deposits-Type B	4,847,479	4,970,089
Inter-Bank fund cleaning account	635,480	130,151
Lend to banks	3,326,630	2,800,000
Purchased C.D. from CBC	13,160,000	11,400,000
Total	\$24,635,414	\$24,134,482

- (1) The reserve for deposits, as required by the Banking Law and the Central Bank Law, is calculated by applying the statutory rates to the average monthly balances of the various types of deposit accounts. The balance of the Bank's Reserve for Deposits as of December 31, 2012 and 2011 were \$4,847,479 thousand and \$4,970,089 thousand respectively. By law, the Bank is not permitted to utilize the reserve unless at the time when the balance of the reserve is adjusted.
- (2) For the guarantees towards the CBC certificate of deposit as mentioned above, please see Note 6.

4.3 FINANCIAL PRODUCTS AT FAIR VALUE THROUGH INCOME STATEMENT

Item	2012.12.31	2011.12.31
Financial assets for trading purposes		
Bills investments	\$1,262,610	\$1,309,634
Bonds	120,043	76,199
Sub-total	\$1,382,653	\$1,385,833
Derivative financial products		
Forward exchange	\$425	\$677
Foreign exchange swaps	905	—
Sub-total	\$1,330	\$677
Financial assets at fair value through profit or loss		
Convertible corporate bonds	\$75,459	\$229,339
Sub-total	\$75,459	\$229,339
Total	\$1,459,442	\$1,615,849
Derivative financial Debt		
Forward exchange contracts	(\$613)	(\$268)
Foreign exchange swaps	—	(3,569)
Sub-total	(\$613)	(\$3,837)

- (1) Derivative transactions undertaken by the Bank of FY 2012 and 2011 are primarily intended for meeting client needs, balancing the Bank's trading positions as well as requirements, hedge the Bank's exposure in assets and liabilities arising from interest rate and currency exchange rate fluctuations. The Bank adopted hedging strategies that were effective in hedging against most of the risk of market prices or cash flows.

The contract amount (notional principal) of the Bank's financial derivatives in FY2011 and 2010 are listed as follows:

Item	Contract Amount	
	2012.12.31	2011.12.31
Forward exchange contracts	204,236	258,018
Foreign exchange swaps	233,837	866,749

- (2) Until Dec. 31, 2012 and Dec. 31, 2011, the maturity dates of bonds possessed by the Bank range from 2018 to 2021 and 2019 to 2021. The average interest rates thereof are specified in Note 10.(2).
- (3) Gain on financial assets and liabilities at fair value through income statement in FY2012 and 2011 which was realized net income was minus \$16,247 thousand and \$ 119,793 thousand. The evaluated income thereof was \$ 3,536 thousand and minus \$ 1,088 thousand.
- (4) For the guarantees towards financial assets as mentioned above, please see Note 6.

4.4 ACCOUNTS RECEIVABLE- NET

Item	2012.12.31	2011.12.31
Credit card fees receivable	\$198,278	\$189,386
Income receivable	150,507	132,379
Acceptances receivable	150,811	124,776
Interest receivable	410,205	356,666
Income tax refundable- Previous period	13,258	22,487
Income tax refundable- Current period	17,475	10,870
Accounts receivable from credit card issue bank	11,033	12,111
Factoring Receivables	—	138,040
Other receivable	65,210	9,131
Sub-total	\$1,016,777	\$995,846
Less:provision for credit loss	(43,341)	(14,676)
Net	\$973,436	\$981,170

4.5 DISCOUNTS AND LOANS - NET

Item	2012.12.31	2011.12.31
Bills purchased & discounts	\$78,272	\$75,527
Short-term loan & overdrafts	54,339,506	58,200,570
Short-term secured loan & overdrafts	12,774,407	13,164,629
Medium-term loans	19,065,295	19,761,881
Medium-term secured loans	22,432,612	24,524,823
Long-term loans	13,829,419	12,490,735
Long-term secured loans	39,747,546	38,370,150
Overdue loans	1,129,862	1,311,407
Sub-total	\$163,396,919	\$167,899,722
Less : provision for credit loss	(1,352,574)	(1,683,852)
Net	\$162,044,345	\$166,215,870

Loans and other credit advances which the bank has ceased to charge interest as at Dec. 31, 2012 and Dec. 31, 2011 was \$ 1,180,572 thousand and \$1,361,491 thousand respectively. Interest income that was not included in FY2012 and 2011 was \$ 17,541 thousand and \$47,693 thousand respectively.

(1)Statement of changes in provisions for bad debts

In accordance with FSC Jin-Guan-Ying-Fa Directive No. 0991007640, effective December 31, 2010, the Bank shall also disclose the following as of January 1, 2011:

A.The changes in the provision for accounts receivable loss are as follows:

Item	2012.1.1 – 2012.12.31	2011.1.1 – 2011.12.31
Balance, January 1, 2012, 2011	\$14,676	\$3,243
Provisions	28,492	6,580
Reserve for renege loss are reclassified as	909	4,918
Bad debt for resale	(505)	(52)
Foreign exchange and other changes	(86)	—
Increase(loss) in reclassification	(145)	(13)
Balance, December 31, 2012, 2011	\$43,341	\$14,676

B. The changes in the provision for discounts and credit loss are as follows:

Item	2012.1.1 – 2012.12.31	2011.1.1 – 2011.12.31
Balance, January 1, 2012, 2011	\$1,683,852	\$859,778
Provisions	516,064	889,944
Translation of reserve for guarantee liability	—	13,817
Bad debt for resale	(837,942)	(85,899)
Foreign exchange and other changes	(9,400)	6,212
Increase(loss) in reclassification	—	—
Balance, December 31, 2012, 2011	\$1,352,574	\$1,683,852

C. The changes in the provision for overdue accounts from Short-term advance, Bill purchased, and non-loans are as follows:

Item	2012.1.1 – 2012.12.31	2011.1.1 – 2011.12.31
Balance, January 1, 2012, 2011	\$20,061	\$17,809
Provisions	19,807	2,266
Bad debt for resale	(28,493)	(27)
Foreign exchange and other changes	—	—
Increase(loss) in reclassification	145	13
Balance, December 31, 2012, 2011	\$11,520	\$20,061

- a. In 2012, bad debts were recognized at NT\$579,363 thousand provisions for bad debts were recognized at NT\$564,363 thousand and provisions for guarantee liability were recognized at NT\$15 million.
- b. In 2011, bad debts were recognized at NT\$898,790 thousand provisions for bad debts were recognized at NT\$898,790 thousand.

(2) Statement of changes in provisions for bad debts

A. Provision for bad debts of receivables evaluation sheet:

2012.12.31

Item	accounts receivable	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	\$64,831	\$29,839
— Evaluation on consolidated impairment	5,291	4,748
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	946,655	8,754
Total	\$1,016,777	\$43,341

2011.12.31

Item	accounts receivable	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	\$5,490	\$4,533
— Evaluation on consolidated impairment	8,812	2,632
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	981,544	7,511
Total	\$995,846	\$14,676

B. Table for the estimates of provision for discounts and credit loss. :

2012.12.31

Item	Total Loan	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	\$1,164,329	\$404,287
— Evaluation on consolidated impairment	1,173,324	272,311
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	161,059,266	675,976
Total	\$163,396,919	\$1,352,574

2011.12.31

Item	Total Loan	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	\$1,829,826	\$542,222
— Evaluation on consolidated impairment	1,128,719	317,937
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	164,941,177	823,693
Total	\$167,899,722	\$1,683,852

C. Table for the estimates of provision for overdue accounts from Short-term advance, Bill purchased, and non-loans:

2012.12.31

Item	Total Loan	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	\$ 17,373	\$ 6,000
— Evaluation on consolidated impairment	32,040	5,520
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	1,297	—
Total	\$ 50,710	\$ 11,520

2011.12.31

Item	Total Loan	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	\$ —	\$ —
— Evaluation on consolidated impairment	47,218	20,061
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	2,866	—
Total	\$ 50,084	\$ 20,061

4.6 AVAILABLE-FOR-SALE FINANCIAL ASSETS - NET.

Item	2012.12.31	2011.12.31
Central government bonds	\$447,721	\$229,232
Other government bonds	2,807,440	387,032
Corporate bonds	669,536	499,795
Stocks	86,317	55,504
Profits the certificate	125,835	13,144
CBC Negotiable certificate of deposit	9,200,000	7,050,000
Overseas bonds	5,615,845	3,516,101
Sub-total	18,982,694	11,750,808
Valuation adjustment	154,401	(2,384)
Total	\$19,137,095	\$11,748,424

- (1) Until Dec. 31, 2012 and 2011, the maturity dates of said financial assets held by the Bank range from 2013 to 2031, and from 2012 to 2023, please refer to Note 10.2 for the average interest rate.
- (2) Until Dec.31, 2012 and 2011, the book value of transactions under re-purchase agreement of the said financial assets was \$59,900 thousand and \$88,900 thousand.
- (3) For the guarantees towards financial assets as mentioned above, please see Note 6.

4.7 HELD-TO-MATURITY FINANCIAL ASSETS - NET

Item	2012.12.31	2011.12.31
Central government bonds	—	259,146
Other government bonds	—	2,283,507
Corporate bonds	—	299,529
Overseas bonds	—	2,724,354
Total	—	\$5,566,536

- (1) Until Dec. 31, 2011 the maturity dates of the said financial assets possessed by the Bank range from 2012 to 2031, please refer to Note 10.2 for the average interest rate.
- (2) For the guarantees towards financial assets as mentioned above, please see Note 6.
- (3) In accordance with CBC Tai-Yang-Yeh-Zi No. 1000034507 dated July 19, 2011, as of Oct. 1, 2011, the minimum rate of current assets and liabilities to be provided by financial organizations shall be increased from 7% to 10% as of October 2011, and “on a monthly basis” instead of “on a daily basis”. Therefore, according to the Statement of Financial Accounting Standards No. 34, the proceeds from held-to-maturity financial assets sold earlier due to the amendments to the competent authority’s laws and regulations was NT\$1,704,575 thousand, and the relevant gain from the disposal, NT\$80,275 thousand, was recognized in 2011.
- (4) In consideration of enhancing the flexibility of the use of assets, the Board resolved in Aug. 2012 to recognize all assets held to maturity amounting to NT\$5,631,013 under the title of financial assets available for sales.

4.8 EQUITY METHOD'S INVESTMENTS

2012.12.31			
Name	Shareholding (Thousand Shares)	Book Value	Shareholding (%)
Kaohsiung Bank Insurance Agency Co., Ltd.	300	\$71,448	100.00%
Kaohsiung Bank General Insurance Agency Co., Ltd.	500	7,614	100.00%
Total		\$79,062	

2011.12.31			
Name	Shareholding (Thousand Shares)	Book Value	Shareholding (%)
Kaohsiung Bank Insurance Agency Co., Ltd.	300	\$55,553	100.00%
Kaohsiung Bank General Insurance Agency Co., Ltd.	500	7,383	100.00%
Total		\$62,936	

(1) Long-term equity investments and return(loss) on investments recognized under the equity method on the basis of the financial statements of the investees covering the same fiscal period are shown below:

FY 2012

Item	Long-term equity investments	return(loss) on investments
audits by the CPAs' engaged with the Bank.	\$79,062	\$49,808
Total	\$79,062	\$49,808

FY 2011

Item	Long-term equity investments	return(loss) on investments
audits by the CPAs' engaged with the Bank.	\$55,553	\$35,955
No audit by CPAs is required	7,383	1,474
Total	\$62,936	\$37,429

(2) According to the amended SFAS No. 7 (Consolidated Financial Statements) and the requirements of Financial Supervisory Commission through notices, the Company shall incorporate investees where it has dominant control into the consolidated financial statements.

4.9 OTHER FINANCIAL ASSETS - NET

Item	2012.12.31	2011.12.31
Financial assets – cost method	\$1,287,577	\$ 1,287,577
Less : Accumulated impairment	(25,000)	—
Bond investment without market price	559,567	2,026,789
Less : Accumulated impairment	(136,983)	(1,513,416)
Short-term advance	22,221	20,016
Overdue accounts from non-loans	28,489	30,068
Provision for credit loss – overdue accounts from non-loans	(11,520)	(20,061)
Total	\$1,724,348	\$1,830,973

- (1) Certain financial assets held by the Bank were evaluated based on cost, because there was no market price for reference and it was impossible to measure the fair value. The Bank has recognized loss for accumulated impairment as of Dec.31, 2012 and 2011 were \$25 million and \$0, respective.
- (2) The bond investment without the open quotation of active market with fixed or determined collectable amount as held by the Bank is evaluated based on the cost upon amortization; however, because of the subprime mortgage in the U.S., the accumulated impairment loss on the other bonds recognized as of December 31, 2012 and 2011 was \$136,983 thousand and \$1,513,416 thousand.
- (3) The impairment losses recognized on assets mentioned above are as follows:

Item	2012.1.1-2012.12.31	2011.1.1-2011.12.31
Recognized impairment loss on financial assets valued at cost	\$25,000	\$ —
Recognized impairment loss on investment in bonds without an active market	70,029	418,200
Total	\$95,029	\$418,200

4.10 PROPERTY AND EQUIPMENT COST - NET

- (1) The detail of property and equipment cost at 2012.12.31

Item	Cost	Accumulated Depreciations	Book Value
Land	\$1,224,286	\$ —	\$1,224,286
Buildings	1,218,188	383,188	835,000
Machinery and equipment	621,583	564,260	57,323
Transportation equipment	24,558	20,016	4,542
Miscellaneous equipment	92,049	83,062	8,987
Leasehold improvement	232,563	227,472	5,091
Total	\$3,413,227	\$1,277,998	\$2,135,229

- (2) The detail of property and equipment cost at 2011.12.31

Item	Cost	Accumulated Depreciations	Book Value
Land	\$1,231,286	\$ —	\$1,231,286
Buildings	1,239,159	369,264	869,895
Machinery and equipment	622,593	546,961	75,632
Transportation equipment	22,835	20,036	2,799
Miscellaneous equipment	95,488	85,234	10,254
Leasehold improvement	232,563	219,983	12,580
Total	\$3,443,924	\$1,241,478	\$2,202,446

- (3) Insurance coverage for the Bank's fixed assets as of December 31, 2012 and 2011 were \$1,935,651 thousand and \$1,972,146 thousand, respectively.
- (4) The Bank's fixed assets have not been appraised as of December 31, 2012 and 2011.
- (5) No collateral has been assumed on the Bank's fixed assets as of December 31, 2012 and December 31, 2011.

4.11 OTHER ASSETS

Item	2012.12.31	2011.12.31
Refundable deposits	\$24,595	\$23,839
Deferred expenses	5,633	8,030
Non-operating assets – land	807,607	807,607
Less : Accumulated impairment	(190,198)	(190,198)
Deferred income tax assets	75,672	94,960
Other	25,109	24,789
Total	\$748,418	\$769,027

(1) Refer to Note 4.23 for descriptions of deferred income tax assets.

(2) The said non-operational asset – land was the governmental land acquired by the Bank prior to privatization of the Bank, which was scheduled to be occupied by the Bank's branch. However, after privatization, the Bank is not a governmental authority any longer. Due to the zoning restrictions, the Bank has petitioned with Kaohsiung City Government in writing for alteration of the land registration. After the registration of alteration is completed, the branch will be built on the land according to the original plan.

4.12 ACCOUNTS PAYABLES

Item	2012.12.31	2011.12.31
Accounts receivable from credit card issue bank	\$10,162	\$11,962
Accrued expenses	147,268	152,066
Interest payable	375,780	392,520
Payable for employees' bonus & remunerations to directors and supervisors	23,560	–
Income tax payable	1,112	1,112
Acceptance bills	150,811	124,776
Collections for customers	37,558	40,397
Checks for clearance	1,447,863	1,172,360
Income tax on interest withheld	4,647	4,816
Payroll transfers payable	1,406,255	1,221,593
Unpaid proceeds from bills collected	21,702	52,607
Compensation payable for the settlement of disputes over underwritten investments	–	828
Payables for factoring	–	13,804
Other payables	328,856	190,507
Total	\$3,955,574	\$3,379,348

Refer to Note 7.3 for descriptions of Compensation payable for the settlement of disputes over underwritten investments.

4.13 DEPOSITS AND REMITTANCES

Item	2012.12.31	2011.12.31
Checking deposits	\$2,420,670	\$3,382,844
Treasury deposits	11,905,378	10,815,120
Demand deposits	19,118,312	18,383,538
Demand savings deposits	44,756,545	43,517,559
Time savings deposits	53,191,843	48,251,659
Time deposits	55,761,621	63,906,935
Negotiable certificate of deposits	2,394,600	5,685,900
Remittances & drafts issued	3,331	707
Total	\$189,552,300	\$193,944,262

4.14 FINANCIAL BONDS PAYABLE

Item	Term / Interest rate	2012.12.31	2011.12.31
Subordinate financial bond, first issue 2007	2007.06.12 – 2014.06.12 1.279% – 1.294%	\$1,000,000	\$1,000,000
Subordinate financial bond, first issue 2009	2009.01.20 – 2016.01.20 3.4%	3,000,000	3,000,000
Total		\$4,000,000	\$4,000,000

4.15 PENSION PLAN

- (1) The Bank started to make contributions to a pension fund upon its privatization on September 27, 1999 in accordance with the Labor Standards Law, which is deposited with the Bank of Taiwan. Information on the pension plan is as follows:

Item	2012.1.1 – 2012.12.31	2011.1.1 – 2011.12.31
Balance, January 1, 2012 · 2011	\$530,703	\$483,541
Add : Provisions	49,274	48,554
Interest revenue	5,342	5,950
Less : Payment	(16,473)	(7,342)
Balance, Dec. 31.	\$568,846	\$530,703

- (2) Defined Benefit Pension Plan

A. The funded status of the pension plan is as follows :

Item	2012.12.31	2011.12.31
Benefit obligation		
Vested benefit obligation	(\$643,823)	(\$523,639)
Non-vested benefit obligation	(277,728)	(311,790)
Accumulated benefit obligation	(\$921,551)	(\$835,429)
Projected increase in salary effect	(275,130)	(263,458)
Projected benefit obligation	(\$1,196,681)	(\$1,098,887)
Funded status		
Fair value of plan assets	568,846	530,703
Funded status of pension plan	(\$627,835)	(\$568,184)
Unrecognized transition obligation (net assets)	–	–
Unrecognized loss (gain)	273,971	263,458
Pension payable	–	–
Accrued pension payable / prepaid pension fund at the end of the period	(\$353,864)	(\$304,726)

B. The components of net periodic pension costs are as follows

Item	2012.1.1 – 2012.12.31	2011.1.1 – 2011.12.31
a. Service costs	\$87,532	\$81,218
b. Interest costs	26,831	25,896
c. Expected return on plan assets	(13,517)	(13,958)
d. Amortization of unrecognized transition obligation (net assets)	—	—
e. Amortization of unrecognized service costs for the previous period	—	—
f. Amortization of unrecognized gain or loss	9,598	6,924
g. Net periodic pension costs = a+b+c+d+e+f	\$110,444	\$100,080
C. Vested benefit	\$730,027	\$591,962

D. Actuarial assumptions used to calculate net periodic pension costs are as follows:

Item	2012.12.31	2011.12.31
a. Discount rate of projected benefit obligation	2.45% each year	2.45% each year
b. Rate of increase in salaries	2.00% each year	2.00% each year
c. Projected long-term rate of return on pension assets	2.45% each year	2.45% each year

(3)“Labor Pension Act” was enforced as of July 1, 2005, which is the confirmed rules governing contribution of retirement pension. Laborers may choose to continue applying the retirement provisions referred to in the “Labor Standards Act”, or apply the retirement system referred to in the said Act and retain the seniority applicable to the said Act. According to the said Act, the percentage of the labor pension to be contributed by the employer on a monthly basis should not be less than 6% of the laborers’ monthly salary. The retirement pension contributed by the company in accordance with the said Act in 2012 and 2011 was \$12,194 thousand and \$10,801 thousand, respectively. The retirement pension, \$110,444 thousand and \$100,080thousand, was recognized according to Statement of Financial Accounting Standards No.18 entitled “Accounting for Pensions”. The extra payment for preferential severance pay and pension in 2012 and 2011 was \$3,932 thousand and \$8,065 thousand respectively.

4.16 OTHER FINANCIAL LIABILITIES

Item	2012.12.31	2011.12.31
Appropriated loan funds	\$19,500	\$30,907
Appropriated loans	132,616	164,243
Total	\$152,116	\$195,150

Appropriated loan funds mentioned above refer to the various special syndicated loans organized by the Bank, Small and Medium Enterprise Development Fund, the National Youth Commission of the Executive Yuan and the Development Fund of the Executive Yuan. The collected funds entrusted to the Bank from the respective committees to fund special project loans.

4.17 OTHER LIABILITIES

Item	2012.12.31	2011.12.31
Reserve for losses on guarantees	\$15,000	\$ —
Guarantee deposit received	39,813	38,842
Pre-receives	114,252	63,243
Other	26,594	1,278
Total	\$195,659	\$103,363

- (1) The provisions for guarantee liability deriving from overdue accounts for collection due to bank guarantee operation in 2012 and 2011 were recognized as discount and loans-provisions for bad debts amounting to NT\$0 and NT\$13.817 million, respectively.
- (2) The Bank has recognized reserve for losses on guarantees as of Dec.31, 2012 and 2011 were \$15 million and \$0, respective.
- (3) The provision for default loss-credit cards deriving from the default of credit card acquirer bank services in 2012 and 2011 was recognized as receivables-provision for bad debts amounting to NT\$909,000 and NT\$4.918 million, respectively.
- (4) In accordance with FSC Jin-Guan-Zheng-Quan Directive No. 0990073857, effective Jan.11, 2011, provisions of "Reserve for transaction loss" and "Reserve for default loss" by securities firms should be deleted, and the "Reserve for transaction loss" and "Reserve for default loss", NT\$15,326 thousand, already provided at the end of December 2010 should be transferred to special reserve. After the transfer, the reserve should be used to offset a deficit. When the reserve reaches 50% of the Bank's paid-in capital, it can only be transferred to capital stock as legal reserve.

4.18 CAPITAL

Item	2012.12.31	2011.12.31
Authorized capital	\$ 15,000,000	\$ 15,000,000
Paid-in capital	7,069,476	7,069,476
Common stocks issued (thousand shares)	706,948	706,948
Par value	10	10

4.19 CAPITAL SURPLUS

According to the Company Law, capital surplus arising from issuance of shares in excess of par value and donation capital surplus may be used to offset a deficit and, when the company has no accumulated loss, may be transferred to new shares or cash on the basis of the Ratio of Shareholding of shares held by the stockholders. According to the relevant requirements provided under Securities and Exchange Act, said capital surplus may be transferred to common stock up to an annual limit of 10% of the paid-in capital. Unless the earnings cannot afford to offset the capital loss, the company shall not offset the loss with the capital surplus.

4.20 RETAINED EARNINGS

- (1) According to the company's articles of incorporation, if there are any retained earnings upon the bank's final account at the end of the year, they will be used to make up the loss of previous years upon payment of all payable taxes pursuant to laws, and 30% of the remainder will be contributed as the legal reserve. Meanwhile, a special reserve should be provided or reversed pursuant to laws and subject to the needs of the business. The balance and the unallocated accumulated earnings for the previous years, which are identified as the allocable earnings, should be distributed in the following manner: (A) 2% for compensation of directors and supervisors; (B) 8% for employees' bonus; (C) 90% for shareholders' dividends. The shareholders' meeting may retain the earnings in part or in whole subject to the future need for business and profitability. The distribution of shareholders' dividends may be made subject to the resolution of the shareholders' meeting with respect to the proposal submitted by the board of directors for distribution and adjustment of the percentage of cash dividend and stock dividend, provided that the cash dividend should not be less than 5% of the stock dividend offered in the current year. Before the legal reserve amounts to the gross capital, or the capital adequacy ratio meets the requirements under the Banking Law, the maximum distribution of cash earnings should be subject to the Banking Law and the competent authority's requirements.
- (2) Legal reserve may only be used to offset the company's loss and transferred to new shares or cash on the basis of the Ratio of Shareholding of shares held by the stockholders, provided that the reserve transferred to new shares or cash shall be no more than 25% of the paid-in capital.



- (3) According to Article 41 of the Securities and Exchange Act, earnings of the Bank, if there are any, shall be subject to withholding for mandatory reserve. In addition, the book value of the adjustment of shareholders' equity in current period (e.g., unrealized gain/loss of financial products, accumulated adjustment of conversion) shall be deducted from the corporate earnings of current period as special reserve. Such amount shall be equivalent to the special reserve deducted from the retained earnings of the previous period, and shall not be paid out as earnings. The portion of reversal of the adjustment of shareholders' equity, if applicable, can be subject to distribution as earnings.
- (4) The FY 2011 and 2010 retained earnings were appropriated as follows in accordance with the shareholders' meeting held in Jun. 2012 and 2011 respectively.

Item	Retained Earnings		Dividend per stock (NT\$)	
	FY2011	FY2010	FY2011	FY2010
Legal reserve	\$ —	\$38,128		
Special reserve	—	1,577		
Cash dividend of common stock	—	10,516	—	0.02
Stock dividend of common stock	—	78,870	—	0.15
Total	\$ —	\$129,091		

The operation in 2011 resulted in loss, and no bonus for shareholders and employees and remuneration to directors and supervisors were allocated. The General Meeting of shareholders also resolved on June 21, 2012 to allocate special reserve amounted to NT\$41.937 million and mandatory reserves amounted to NT\$364.946 million to offset the loss carried forward. For details of the minutes of the meeting on resolution of the shareholders to offset the loss, visit MOPS at the official website of TWSE.

- (5) The General Meeting of shareholders resolved to allocate NT\$0 as employee bonus and remuneration to directors and shareholders in 2012. It is identical with the resolution of the General Meeting of shareholders in 2011 that NT\$0 was allocated as employee bonuses and remuneration to shareholders.
- (6) The Company assessed the employee bonus and remuneration to directors and supervisors in accordance with the Articles of Incorporation and with reference to the average of the percentage resolved by the General Meeting of shareholders in previous year for the allocation of employee bonus and remunerations to directors and supervisors. In 2012, employee bonuses were estimated at NT\$18.85 million and remuneration to directors and supervisors were estimated at NT\$4.71 million. Operation resulted in loss in 2011, employee bonuses and remuneration to directors and supervisors were estimated at NT\$0. If there is a difference between the actual amount resolved by the General Meeting for payout and the estimated amount, it shall be recognized as change in accounting estimation, and shall be booked in the year of the resolution of General Meeting.
- (7) As of Mar. 28, 2013, no motion on the distribution of earnings and earnings per share in 2012 has ever been proposed in the sessions of the Board.

4.21 NET COMMISSION AND SERVICE FEES

Item	2012.1.1-2012.12.31	2011.1.1-2011.12.31
Income on commission & service fees	\$394,384	\$399,994
Expenses on commission & service fees	(38,767)	(40,545)
Total	\$355,619	\$359,449

4.22 PERSONNEL SERVICE, DEPRECIATION AND AMORTIZATION EXPENSES

Item	2012.1.1-2012.12.31	2011.1.1-2011.12.31
Personnel service expenses		
Wages & salaries	\$1,126,348	\$1,033,903
Health & labor insurance	88,183	82,353
Pension expenses	126,570	118,946
Other expenses	9,643	9,196
Depreciation & amortization	76,034	83,432
Total	\$1,426,778	\$1,327,830

4.23 INCOME TAX

(1) Deferred Income Tax Assets (Liabilities) – Net

Item	2012.12.31	2011.12.31
Temporary differences		
Unrealized expense on provision of employees' pension	\$58,768	\$50,415
Unused deduction of investment	3,406	3,101
Unused deduction of loss	13,620	40,766
Unrealized compensation loss	–	141
Other	(122)	537
Total	\$75,672	\$94,960
Less: allowance for decline in market value	–	–
Net	\$75,672	\$94,960

(2) Income Tax Expense (Benefit)

Item	2012.1.1-2012.12.31	2011.1.1-2011.12.31
Income tax payable	\$11,798	\$12,761
Deferred income tax expense (benefit)	19,288	(8,099)
Impacts from changes to the income tax regulation.	1,863	–
Income tax expense (benefit)	\$32,949	\$4,662

(3) Income Tax Payable (Refundable)

Item	2012.12.31	2011.12.31
Income tax payable in the current period	\$ –	\$ –
Income tax payable in the previous years	1,112	1,112
Income tax payable (refundable)	\$1,112	\$1,112

Detailed of Income tax payable (refundable) :

Item	2012.12.31	2011.12.31
Income tax expenses in the current period	\$11,798	\$12,761
Additional 10% tax levied on unappropriated retained earnings		
Minus: investment tax credits		
Income tax pre-paid	(29,273)	(23,631)
Income tax payable (refundable) in the current period	(\$17,475)	(\$10,870)



In 2012 and 2011, the refundable corporate income tax amounted to NT\$17.475 million and NT\$10.87 million cognized under the account title of receivable tax rebate of net receivable- current.

- (4) The difference between the income tax payable on the net profit before tax as calculated with the statutory tax rate and the current period income tax expense as calculated according to the Income Tax Act is explained as follows:

Item	2012.1.1-2012.12.31	2011.1.1-2011.12.31
Income tax payable	\$71,256	(\$72,876)
Income tax credits derived by deduction of loss	(\$11,444)	—
Unrecognized pension costs	8,353	8,759
Net income derived by the OBU-tax exempt	(20,397)	(44,303)
(Gain) loss on securities	327	(611)
(Gain) loss on valuation of financial assets and liabilities at fair value through income statement	(601)	(390)
Investment loss (gain) accounted for under the equity method	(8,467)	(6,363)
Loss on asset impairment (reverse)	16,155	71,094
Cash dividends	(6,486)	(6,827)
Over the credit loss expenses limit (reverse)	(46,603)	29,925
Unrealized compensation loss	(141)	(1,121)
Sell land gain	(1,952)	—
Other tax adjustments	—	443
Difference on tax and based tax	11,798	12,761
Save income tax of deduction of loss for the later year	—	22,270
Income tax expense	\$11,798	\$12,761

- (5) The Bank's income tax returns for the years up to and including FY 2009 have been assessed and approved by the Tax Authority.

- (6) Imputation Tax System and Related Information:

Item	2012.12.31	2011.12.31
Imputed tax credit for stockholders	\$191,534	\$163,588
Unappropriated earnings-before June 30, 1998	—	—
Unappropriated earnings-July 1, 1998 & thereafter	386,202	(406,883)

Item	2012. 1. 1-2012.12.31	2011.1.1- 2011.12.31
Ratio of deductible tax credit for the appropriation of earnings	20.48% (Estimated)	— (Actual)

- (7) Up to Dec. 31, 2012 details of the Bank's unused tax credits from promotion of business upgrading rule:

Item	Deductionable Amount	Deductionable Balance	Deductionable due
The promotion upgrading rule 6th stipulation	\$3,406	\$3,406	2012-2013

4.24 BASIC EARNINGS PER SHARE

Item	2012.1.1-2012.12.31	2011.1.1-2011.12.31
Income (loss) before tax (A)	\$419,151	(\$428,681)
Net income (loss) (B)	\$386,202	(\$433,343)
Weighted average outstanding common stocks (thousand shares) (C)	706,947	606,549
Weighted average outstanding common stocks after adjustment (thousand shares)	706,947	606,549
Basic earnings per share		
Income (loss) before tax (A/C)	\$0.59	(\$0.71)
Net income (loss) (B/C)	\$0.55	(\$0.71)

- (1) The recapitalization from earnings 7,887 thousand shares, recapitalization from capital surplus 52,579 thousand shares and recapitalization from employee bonus 683 thousand shares were ratified at the general shareholders' meeting on June 16, 2011. As a result, a total of 61,149 thousand new shares were to be issued, and August 7, 2011 was set as the record date of recapitalization, and the recapitalization was registered at the Ministry of Economic Affairs on August 18, 2011.
- (2) The capital increase in cash by issuing 120,000 thousand new shares was ratified at the Directors' Meeting on June 30, 2011. October 26, 2011 was set as the record date of capital increase, and the capital increase was registered at the Ministry of Economic Affairs on November 10, 2011. The weighted average outstanding common stocks in the current period in 2011 are stated as following:
 $525,798 + 60,466 * 12/12 + 683 * 5/12 + 120,000 * 2/12 = 606,549$

5. RELATED PARTIES TRANSACTIONS

Significant Transactions Between the Bank and Related Parties are Summarized as Follows :

5.1 NAMES AND RELATIONSHIPS OF RELATED PARTIES

Name of the related parties	Relationships with the Bank
Kaohsiung City Government	The Bank's major shareholder
Kaohsiung Rapid Transit Co.,	Related parties
Other related parties	The Bank's director, supervisor, their relatives, their enterprises manager and the related parties
Kaohsiung Bank Insurance Agency Co., Ltd.	Subsidiary of the Bank
Kaohsiung Bank General Insurance Agency Co., Ltd.	Subsidiary of the Bank

5.2 SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

(1) Credit / Loan

Name of Related Parties	2012.1.1-2012.12.31		
	2012.12.31	Interest Income, Commission & Service fees	Interest Rate
Kaohsiung City Government	\$40,639,868	\$425,119	0.917% – 2.375%
Other Related Parties	68,678	892	1.390% – 3.980%

Name of Related Parties	2011.1.1-2011.12.31		
	2011.12.31	Interest Income, Commission & Service fees	Interest Rate
Kaohsiung City Government	\$42,458,572	\$419,614	0.740% – 2.490%
Other Related Parties	71,926	885	1.355% – 3.980%

Interest rates of credit approval extended by the Bank to the aforementioned related parties for 2012.1.1-2012.12.31 and 2011.1.1-2011.12.31 are shown as above depending on the nature and purposes of these loans, and the average interest rate ranges to non-related parties (except for pre-agreed accounts) were between 0.10% and 11.88%.

(2) Deposits

Name of Related Party	2012.1.1-2012.12.31		
	2012.12.31	Interest Expenses	Interest Rate
Kaohsiung City Government	\$11,905,050	\$74,406	0% – 1.45%
Kaohsiung Rapid Transit Co.	5,073,358	18,194	0.30% – 1.50%
Other Related Parties	343,712	6,910	0% – 13%
Kaohsiung Bank Insurance Agency Co., Ltd.	89,170	326	0.17% – 1.32%
Kaohsiung Bank General Insurance Agency Co., Ltd.	7,651	72	0.17% – 1.32%

2011.1.1-2011.12.31

Name of Related Party	2011.12.31	Interest Expenses	Interest Rate
Kaohsiung City Government	\$10,815,120	\$61,006	0% – 1.37%
Kaohsiung Rapid Transit Co.	2,148,733	16,866	0.11%-1.50%
Other Related Parties	632,219	5,381	0% – 13%
Kaohsiung Bank Insurance Agency Co., Ltd.	70,811	180	0.12% – 0.61%
Kaohsiung Bank General Insurance Agency Co., Ltd.	7,429	56	0.12% – 1.32%

- a. Interest rates in the above related parties' deposits are shown as above depending in the nature of the deposits; the average interest rates on third-party deposits were between 0% and 13%.
- b. The maximum interest rate on employees' (non-related parties) deposit accounts was 13%, which was also the maximum interest rate paid in related parties' deposit accounts depending in the nature of the deposit accounts.

(3) Lease

A. Details of the premises leased by the Bank from the Kaohsiung City Government :

2012.1.1-2012.12.31

Leased Assets	Lease Term	Payment Method	Rental Expense
Hsiao Kang Branch	2012.1.1-2013.12.31	half yearly	\$215
Yen Cheng Mini-Branch	2011.1.1-2013.12.31	half yearly	722
Waan Nei Branch	2012.1.1-2013.12.31	half yearly	972
Shih Fu Branch	2012.1.1-2013.12.31	half yearly	239
Tso Ying Branch	2012.1.1-2014.12.31	half yearly	617
Kwei Lin Branch	2011.1.1-2012.12.31	half yearly	330
Gangshan Benjhou Branch	2012.9.1-2017. 8.31	half yearly	131
		Total	\$3,226

2011.1.1-2011.12.31

Leased Assets	Lease Term	Payment Method	Rental Expense
Hsiao Kang Branch	2010.1.1-2011.12.31	half yearly	\$216
Yen Cheng Mini-Branch	2011.1.1-2013.12.31	half yearly	722
Waan Nei Branch	2010.1.1-2011.12.31	half yearly	976
Shih Fu Branch	2010.1.1-2011.12.31	half yearly	245
Tso Ying Branch	2009.1.1-2011.12.31	half yearly	617
Kwei Lin Branch	2011.1.1-2012.12.31	half yearly	332
		Total	\$3,108

Type of Lease: Operating Lease.

Determination of the Aforementioned Rental Expenses : Adjusted according to the published land values and the present value of the building tax for the respective leased property.

B. Rent Received from Related Parties :

2012. 1. 1-2012.12.31

Name of the Related Parties	Collection Method	Amount
Kaohsiung Bank Insurance Agency Co., Ltd.	monthly	\$120
Kaohsiung Bank General Insurance Agency Co., Ltd.	monthly	15

2011.1.1-2011.12.31

Name of the Related Parties	Collection Method	Amount
Kaohsiung Bank Insurance Agency Co., Ltd.	monthly	\$91
Kaohsiung Bank General Insurance Agency Co., Ltd.	monthly	14

Above mentioned rentals were bargained by both parties.

(4) Commission Incomes Received from Related Parties:

Name of the Related Parties	2012.1.1- 2012.12.31	2011.1.1-2011.12.31
Kaohsiung Bank Insurance Agency Co., Ltd.	\$119,291	\$108,417
Kaohsiung Bank General Insurance Agency Co., Ltd.	732	693

(5) Accounts Receivable

Name of the Related Parties	2012.12.31	2011.12.31
Kaohsiung Bank Insurance Agency Co., Ltd.	\$30,046	\$24,692
Kaohsiung Bank General Insurance Agency Co., Ltd.	118	85

(6) Trade Information of the Related Party Who Is the Borrower, Guarantor, or the Collateral Provider:

A. Loans

2012.12.31

Unit : NT\$ Thousand

Item	Account Number or Name of the Related	The Highest Balance	Closing Balance	Performance		Collateral	Any Difference from the Terms and Conditions of Transactions with Non-Related Parties
				Normal Loans	Non-Performing Loans		
Consumer loans to employees	15	35,227	22,954	22,954	—	Real estate, Credit	None
Loans under home mortgage	10	45,637	41,091	41,091	—	Real estate	None
Other loans	Chun-Ching.Ko	2,000	2,000	2,000	—	Real estate	None
Other loans	Te-Chin Chou	2,300	2,209	2,209	—	Real estate	None
Other loans	Juan-Wei Hu	439	424	424	—	Consumer loans	None
Other loans	Richard Lee	532	—	—	—	Consumer loans	None
Other loans	Shan-Hui Chang	6,000	—	—	—	Real estate	None
Other loans	Chi-Chang Chen	2,500	—	—	—	Real estate	None

2011.12.31

Item	Account Number or Name of the Related	The Highest Balance	Closing Balance	Performance		Collateral	Any Difference from the Terms and Conditions of Transactions with Non-Related Parties
				Normal Loans	Non-Performing Loans		
Consumer loans to employees	20	42,555	35,227	35,227	—	Real estate, Credit	None
Loans under home mortgage	11	32,396	26,867	26,867	—	Real estate	None
Other loans	Shan-Hui Chang	6,500	6,000	6,000	—	Real estate	None
Other loans	Te-Chin Chou	2,300	2,300	2,300	—	Real estate	None
Other loans	Chi-Chang Chen	1,000	1,000	1,000	—	Real estate	None
Other loans	Richard Lee	532	532	532	—	Consumer loans	None
Other loans	Juan-Wei Hu	277	—	—	—	Consumer loans	None

Note 1 : For consumer loans to employees and loans under home mortgage, outstanding balances may be disclosed in aggregate; any other loan balances due from related parties must be disclosed individually.

2 : Please specify the types of collateral, including real estate, short-term notes and bills, debentures, secured corporate bond, non-secured corporate bond, listed/OTC stock, unlisted /OTC stock, and other movable property. In the case of other movable property, please specify it in detail.

- B. Guarantees : None.
 C. Transactions of Derivative Financial Products : None.
 D. Transactions for Sale of NPL : None.

(7) Information about Remuneration to Directors, Supervisors and the Management:

Item	2012.1.1-2012.12.31	2011.1.1-2011.12.31
Salary and prize	\$16,601	\$15,264
Bonus	4,710	—
Expenses for execution of business	9,293	9,030
Total	\$30,604	\$24,294

Please refer to the annual report of shareholders' meeting for said information.

6. PLEDGED ASSETS

Details of the Bank's Assets Pledged as Collateral are As Follows :

Item	2012.12.31	2011.12.31
CBC Negotiable certificate of deposit	\$1,000,000	\$2,150,000
Purchased C.D. from CBC	1,760,000	700,000
Government bonds (par value)	270,600	278,200
Total	\$3,030,600	\$3,128,200

The said pledged assets were furnished to courts primarily as the security bond for provisional seizure of debtors' property; security bond for credit card payment; reserve for compensation of Trust Dept and in order to cope with the real-time total fund settlement system of the Central Bank Interbank Funds Transfers and Settlements System by purchasing negotiable certificate of deposits as the security for daytime overdraft to enable the limit of security to be variable at any time and the limit not disbursed at the end of the day can be the reserve for liquid fund.

7. COMMITMENTS AND CONTINGENT LIABILITIES

Up to December 31, 2012 major Commitments of the Bank are as follows :

7.1 RECEIVABLES AND PAYABLES UNDER FORWARD CONTRACTS, COLLECTIONS, GUARANTEE AND ACCOUNTS UNDER CUSTODY

Item	Amount
Collections payable	\$11,081,533
Guarantees	4,995,309
Accounts receivable under letter of credit	1,841,161
Payables on marketable securities under custody	60,089,204
Payables on travelers' checks consigned-in	86,326
Payables on joint loans	7,688,465
Trust assets	20,168,152
Pre-agreed credit limit	9,870,367
Bills & bonds sold under repurchase agreements	69,015
Bills & bonds purchased under resell agreements	4,968,743

7.2 LEASE AGREEMENTS

The Bank leased its office premise under several operating leases. Up to December 31, 2012, security deposits for the various lease agreements amounted to \$15,228 thousand. Amounts payable under the Bank's lease agreements for the next five years are as follows :

Fiscal Year	Amount
2013	\$60,067
2014	24,713
2015	16,412
2016	14,462
2017	6,961

7.3 The investment commissioned to this Bank was issued by LBH. LBH guaranteed that the structured notes amounted to ZAR \$159,290 thousand, equivalent to NT\$ 627,603 thousand. However, while LBH petitioned for bankruptcy with the U.S. court on September 15, 2008, quotations of structured notes issued by Lehman Brothers Treasury Co. B.V. ceased and all redemptions were suspended. Lehman Brothers have petitioned for an extension of payment and a restructuring plan in the same period, and the period for requesting for consent of the restructuring plan. In addition, this company also proposed a restructuring plan with the bankruptcy court of the USA on March 15 2010.

The company's Board of Directors resolved during its meeting dated Apr. 23, 2009 that apart from settlements for "The Nine Major Disputes of Lehman Brothers's Structured Notes", the bank shall provide settlement solutions for investments outside of structured notes issued by Lehman Brothers, and disputes outside the 9 major ones. Settlements were set at 15% of amounts the customer had originally entrusted to the bank.

As at Dec. 31, 2012, the company has settled a total of 746 disputes over Lehman Brothers' structured notes, and paid compensation proceeds totaling NT\$ 95.8 million; the settled And winning.cases represented 95.64% of total disputes (780 cases); Unsettled 34 cases. and the company will commit to resolve structured notes disputes as soon as possible, in cooperation with the Review Committee of The Bankers Association. The company has also sought help from Lee and Li Attorneys at Law to appoint the U.S. legal representative, Morrison & Foerster, and the Dutch legal representative, Nauta Dutilh, to declare debt entitlements to Lehman Brothers' bankruptcy administrators in U.S. and Netherlands. The company will closely monitor further updates and developments of Lehman Brothers' bankruptcies in U.S. and Netherlands for the best interests of our customers.

The debt restructuring plan of Lehman Brothers came into full force on March 6, 2012 in USA time. As ruled by the court of USA, the restructuring plan of LBHI classified the debts to participating financial institutions of Taiwan as "Preferred Third Party Guaranteed Debts". Under this category, as stated in the restructuring plan, about 12.2% of the total amount could be recovered(approximately NT\$71.702 million) and the eventual amount of compensation from LBHI shall be based on the actual amount of distribution for settlement as specified in its debt restructuring plan. The official receiver has started to disburse the payment in accordance with the restructuring plan on March 18, 2012 to recognized and registered creditors of LBHI. The Company has received the first payment amounting to US\$710,000(approximately ZAR 5.616 million) on April 18, 2012 and a second payment amounting to US\$479,000 (approximately ZAR 3.969 million), respectively. In addition, the Company disturbed the amount of ZAR 1.186 million and ZAR 791,000 to clients declined the settlement and not being compensated on May 4, 2012 and Oct. 9, 2012, respectively. The remainder of ZAR 7.608 million (approximately NT\$25.671 million) was recognized under the title of other liabilities. As stated in the restructuring plan of LBHI, the Company is under the category of preferred third party guaranteed debts for compensation. As of disbursement of the second payment for compensation, the Company has received about 6.05% of the compensation. If the distribution of debt compensation exceeds 15%, the amount in full net of provision for compensation shall be allocated to the accounts of the clients in relevant ratios, if there is a balance.



7.4 The company invested US\$ 5 million, 5-year credit linked note issued by The Royal Bank of Scotland plc (RBS). The company was informed in Aug. 2009 that a credit default event was incurred by Idearc, the underlying company to which the note was linked; the contract was deemed matured, the issuer had ceased to accrue interest since Dec. 2009 and demanded physical settlement. However, Idearc was not stated as one of the underlying companies of the note. Our investigation revealed that the original underlying company, Verizon Global Funding Inc., had been merged under Verizon Communication Inc since Feb. 2006, and Idearc Inc was a subsidiary of Verizon Communication Inc which was spun-off from Nov. 2006. Because the calculating agent and the note issuer did not fulfill their duties to duly inform the company, changes to the composition of underlying companies, nor had they clearly specified the portion of debt burden undertaken by the successor, hence the company does not consider Idearc as an eligible successor and thus declines to perform physical settlement. Whether or not a credit default event has occurred in this arrangement is still under debate between the bank, the issuer, and the calculating agent; there have been no conclusions thus far.

Two of the bank's legal representatives appointed to handle the matter above had raised the following opinions:

- A. It is premature to determine, based on current information, whether Idearc is a successor to Verizon Global Funding Corporation.
- B. Whether Idearc's filing for bankruptcy protection in Mar 2009 constituted a credit event in this credit-linked note agreement depends on whether Idearc is a successor to Verizon Global Corporation. However, dispute over this issue is difficult to judge due to insufficient information.
- C. The ISDA Determinations Committee resolved in Oct. 2009 that Idearc was the successor. However, this resolution contained only a voting result without any reasonable basis to support the resolution. There was apparently inadequate reason to support such a conclusion.
- D. The Bank has complained with the U.K. Finance Services Authority (FAS) against the discrimination on June 4, 2010. The FAS responded to the Bank in writing on July 28, 2010, stating that the Bank's complaint has been assigned to the relevant business department for processing, and the case should be deemed included into the scope of business supervised by FSA; notwithstanding, it was not convenient to respond about the relevant information when the case was being processed. Upon the Bank's follow-up, the Bureau responded to the Bank on March 23, 2011, stating that due to the laws and regulations, it should not express any comments on any case pending investigation by it. Until December 31, 2011, the investment impairment estimated by the Bank was US\$5,000 thousand. Removal from the title of assets.

7.5 In March 2012, the Company has discovered the embezzlement of banking staff Chi 00 involving the deposits of the customers and commission amounting to NT\$5.118 million. The Company has recovered NT\$2.105 million with remainder of NT\$3.013 million (recognized as other receivables). The said person has been punished with two major demerit points at one time and was dismissed on March 19, 2012. The auditing function of the Company has completed the audit and has filed criminal charge against the said person. On June 29, 2012, Financial Supervisory Commission has impose a fine amounting to NT\$ 3,000,000 under Letter Chin-Kuan-Kuo-Tzi No. 10120003710. The said fine has been paid as of Dec. 31, 2012.

7.6 In September 2012, the Company discovered former banking staff member Huang oo using 4 phony accounts to borrow money from the Bank. These phony accounts borne the titles of the relatives and friends of Huang. At the time this fraud was uncovered, Huang owed the amount of NT\$59.906 million to the Company. The Company has recovered NT\$8.811 million from Huang with an outstanding portion of NT\$51.514 million net of accrued interest and part of the principal. The Personnel Evaluation Committee of the Company resolved to issue two major demerit points against Huang at one time and to dismiss Huang in a session dated Sep. 26, 2012. The auditing function of the Company has completed the audits and has filed criminal charges and civil claims against Huang. The loss from this event could be compensated in part by insurance benefit and the recovered amount from Huang. The remainder shall be recognized as bad debts in full amount. The actual amount of loss shall be determined after the disbursement of insurance benefit and the subsequent collection effect to recover the loss. On Feb. 26, 2013 Financial Supervisory Commission has imposed a fine amounting to NT\$ 5,000,000 on the Company under Letter Chin-Kuan-Kuo-Tzi No. 10220000150. The Company has recognized such amount in book as of the end of 2012.

8. LOSS DUE TO MAJOR NATURAL DISASTER : NONE.**9.SIGNIFICAT SUBSEQUENT EVENTS : See the explanation in 7.6 Significant.****10.OTHER****10.1 DISCLOSURE OF FINANCIAL PRODUCTS**

- (1) Information of Fair Value
A. Fair Value of Financial Products

Financial Asset	2012.12.31		2011.12.31	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets at fair value equivalent to book value	\$33,742,865	\$33,742,865	\$33,834,095	\$33,834,095
Financial assets at fair value through income statement	1,459,442	1,459,442	1,615,849	1,615,849
Available-for-sale financial assets	19,137,095	19,137,095	11,748,424	11,748,424
Discounts & loans	162,044,345	162,044,345	166,215,870	166,215,870
Held-to-Maturity financial assets	—	—	5,566,536	5,675,560
Other financial assets	1,724,348	1,724,348	1,830,973	1,830,973
Financial Liabilities				
Financial liabilities at fair value equivalent to book value	16,112,283	16,112,283	15,189,301	15,189,301
Financial liabilities at fair value through income statement	613	613	3,837	3,837
Deposits & remittances	189,552,300	189,552,300	193,944,262	193,944,262
Financial bonds payable	4,000,000	4,000,000	4,000,000	4,000,000

The Bank adopted the Following Methods and Assumptions in Estimating the Fair Value of the Financial Instruments:

- a. The book value of short-term financial instruments in the balance sheet is used as the approximation of their fair value. Due to the short maturity of these instruments, this approximation approach is considered reasonable. This method shall be applied to accounts including: cash & cash equivalents, due from CBC & banks, bills and bonds purchased under resale agreements, accounts receivable, due to CBC & banks, accounts payable, bills and bonds sold under repurchase agreements, appropriated loan funds and appropriated loans etc.

The fair value of financial products at fair value through income statement, financial assets in available-for-sale and held-to-maturity financial assets relating to derivative products shall be the market price, if any. If there is no market price for reference, the fair value shall be evaluated based on evaluation method. The estimation and hypothesis used by the Bank in the evaluation method are identical with those used by the market participants in setting the price of the financial products, which are available to the Bank.

- b. For the investment in bonds with no public quotation, the fair value thereof is estimated under evaluation method, including, by referring to the recent market transaction price, or the information provided by trading counterparty.
- c. Discounts & loans, deposits are interest –bearing assets and liabilities. In the majority of the cases. Therefore, the book values of these instruments are close to the approximation of their fair value. The book value of loans for collection is the projected collectable amount less provision for credit loss. Therefore, the book value shall be considered as the fair value.
- d. Financial products evaluated based on cost refer to stocks that are not listed in security exchange or traded at OTC, and has no material impact on any derivative products linked with the stocks and delivered based on the stocks, which should be evaluated based on cost according to the “Rules Governing the Preparation of Financial Statements of Public Issued Banks”.



- e. The fair value of financial bonds payable shall be evaluated based on the discounting rate of its projected cash flow. The discounting rate shall be subject to the available lending rate under similar terms and conditions (similar maturity date).
- f. If derivative products have no market price for reference, forward exchange contracts and foreign exchange swaps contracts shall apply cash flow discounting method, and options shall apply Black Scholes mode.
- g. The Bank calculates the fair value for respective contract based on the exchange rate and interest rate displayed in Reuters quotation system, and forward exchange rate on the maturity date of respective forward exchange contract. The fair value of the interest rate swap And foreign and interest exchange swaps are calculated respectively based on the information provided by trading counterparties, and also the quotation displayed in the Bloomberg system.
- B. Other than the domestic listed (OTC) stock, beneficiary certificate of fund and bonds included in the financial assets at fair value change through income statement, of which the fair value is determined based on the public quotation of the market, the fair value of the Bank's financial assets and liabilities are evaluated based on evaluation method.
- a. The changes of fair value evaluated based on evaluation method in FY 2012 and FY 2011 recognized as income (loss) for the period was \$5,054 thousand and minus \$287 thousand, respectively. The changes of fair value evaluated based on open quotation recognized as the income for the same period was minus \$1,518 thousand and minus \$1,375 thousand respectively.
- b. The total interest income of the financial assets or liabilities at fair value through income statement that are not evaluated based on fair value in FY2012 and FY2011 was \$3,972,667 thousand and \$3,728,394 thousand, respectively, and the income expenses thereof were \$1,894,328 thousand and \$1,760,633 thousand, respectively. The available-for-sale financial assets recognized under the title of shareholders' equity directly in FY2012 and FY2011 was \$156,785 thousand and \$23,403 thousand, respectively.
- C. The hierarchical information about fair value of financial instruments:

Unit : NT\$ Thousand

Financial instruments carried at fair value	2012.12.31			
	Total	Tier-I	Tier-II	Tier-III
Non-financial derivatives				
Assets				
Financail assets at fair value through income statement	\$1,458,112	\$120,043	\$1,338,069	\$ —
Financial assets for trading purposes	1,382,653	120,043	1,262,610	—
Stock investments	—	—	—	—
Investment in bonds	120,043	120,043	—	—
Investment in bills	1,262,610	—	1,262,610	—
Other	—	—	—	—
Designated to be evaluated based on fair value when recognized originally	75,459	—	75,459	—
Available-for-sale financial assets	\$19,137,095	\$3,583,813	\$15,553,282	\$ —
Stock investments	73,482	73,482	—	—
Investment in bonds	9,734,245	3,381,903	6,352,342	—
Other	9,329,368	128,428	9,200,940	—
Other financial assets	\$422,581	\$ —	\$48,810	\$373,771
Investment in bonds with no public quotation	422,581	—	48,810	373,771
Liabilities				
Financial liabilities at fair value through income statement	\$ —	\$ —	—	—
Financial derivatives				
Assets				
Financial assets at fair value through income statement	\$1,330	\$ —	\$1,330	\$ —
Other financial assets	—	—	—	—
Derivative financial assets for hedging	—	—	—	—
Liabilities				
Financial liabilities at fair value through income statement	\$613	\$ —	\$613	\$ —
Other financial liabilities	—	—	—	—
Derivative financial liabilities for hedging	—	—	—	—
Total	\$21,018,505	\$3,703,856	\$16,940,878	\$373,771

Financial instruments carried at fair value	2011.12.31			
	Total	Tier-I	Tier-II	Tier-III
Non-financial derivatives				
Assets				
Financial assets at fair value through income statement	\$1,615,172	\$76,199	\$1,538,973	\$ —
Financial assets for trading purposes	1,385,833	76,199	1,309,634	—
Stock investments	—	—	—	—
Investment in bonds	76,199	76,199	—	—
Investment in bills	1,309,634	—	1,309,634	—
Other	—	—	—	—
Designated to be evaluated based on fair value when recognized originally	229,339	—	229,339	—
Available-for-sale financial assets	\$11,748,424	\$672,768	\$11,075,656	\$ —
Stock investments	39,711	39,711	—	—
Investment in bonds	4,646,808	621,850	4,024,958	—
Other	7,061,905	11,207	7,050,698	—
Other financial assets	\$513,373	\$ —	\$49,780	\$463,593
Investment in bonds with no public quotation	513,373	—	49,780	463,593
Liabilities				
Financial liabilities at fair value through income statement	\$ —	\$ —	—	—
Financial derivatives				
Assets				
Financial assets at fair value through income statement	\$677	\$ —	\$677	\$ —
Other financial assets	—	—	—	—
Derivative financial assets for hedging	—	—	—	—
Liabilities				
Financial liabilities at fair value through income statement	\$3,837	\$ —	\$3,837	\$ —
Other financial liabilities	—	—	—	—
Derivative financial liabilities for hedging	—	—	—	—
Total	\$13,873,809	\$748,967	\$12,661,249	\$463,593

Note 1: Tier-I means the public quotation for the same financial instrument in an active market of financial instruments. The active market as defined in Paragraph 5 of the Statement of Financial Accounting Standards No. 34 "Accounting Principles of Financial Products" means the market that meets the following conditions: (1) The products traded in the market are of the same nature; (2) willing buyers and sellers may be accessed in the market at any time; (3) information about price may be accessed by the public.

Note 2: Tier-II means the observable price other than the public quotation prevailing in an active market, including the observable parameter accessed from the active market directly (e.g., price) or indirectly (e.g., inferred from the price), e.g.:

- (1) The public quotation of similar financial instruments in an active market is inferred from the most recent trading value of the similar financial instruments as the fair value of the financial instrument held by the bank. The similar financial instruments shall be identified in terms of the characteristics and trading conditions of such instruments. The fair value of financial instrument shall be subject to the factors resulting in adjustment of observable trading value of similar financial instrument, including time gap for the trading value of the similar financial instruments (timeframe), difference in trading conditions of financial instruments, trading value related to related parties, observable trading value of similar financial instruments and relevance to the value of the financial instruments as held.



- (2) Public quotation for the same or similar financial instruments in a non-active market.
- (3) The fair value is measured under the evaluation method. The parameters in the evaluation method (e.g. interest rate, yield curve and fluctuation rate, et al.) are accessible in the market (observable parameters mean that the parameters may be accessed from the market, and evaluation of the value of financial instruments based on the parameters may reflect the expectation of the participants in the market).
- (4) The parameters are mostly derived from observable market information, or the relevance thereof may be validated based on the observable market information.

Note 3: Tier-III means that the parameters used to measure the fair value are not based on the information accessible in the market (non-observable parameters, e.g. option pricing method based on historical fluctuation rate, as the historical fluctuation rate does not represent the expectation value of the entire market participants towards the future fluctuation).

Note 4: The classification shall be identical with that applied in the balance sheet.

Note 5: If the input parameters include those based on observable market information and non-observable market information when the fair value of financial instrument is measured under evaluation method, the bank shall judge whether the input parameters are critical to the measurement of the fair value. If the non-observable input parameters are critical to the measurement of fair value, the fair value of the relevant financial instrument shall be categorized into the lowest tier.

Note 6: If there is any material change in the evaluation method or tier adopted for the same financial instrument before and thereafter (e.g. material change in Tier-I and Tier-II, material change caused by non-observable input parameters to measurement of fair value, investment to take the financial instrument into consideration, effect of the current evaluation result to income, related assets, liabilities or shareholders' equity), it is necessary to specify the changes and cause hereof.

Statement of changes in the financial assets at fair value classified into Tier-III

2012.1.1-2012.12.31

Unit : NT\$ Thousand

Item	Balance, Jan.1,2012	Evaluation income at current income or shareholders' equity	Increase		decrease		Balance, Dec.31,2012
			Bought or issued	Transfer into Tier-III	Sold, realized or settled	Transfer out from Tier-III	
Financial assets at fair value through income statement							
Financial assets for rating purposes							
Designated to be valued based on fair value when recognized originally							
Available-for-sale financial assets							
Other financial assets							
Financial derivatives assets							
Investment in bonds with no public quotation	\$463,593	(\$87,964)	\$ -	\$ -	(\$1,858)	\$ -	\$373,771
Total	\$463,593	(\$87,964)	\$ -	\$ -	(\$1,858)	\$ -	\$373,771

2011.1.1-2011.12.31

Item	Balance, Jan.1,2011	Evaluation income at current income or shareholders' equity	Increase		decrease		Balance, Dec.31,2011
			Bought or issued	Transfer into Tier-III	Sold, realized or settled	Transfer out from Tier-III	
Financial assets at fair value through income statement							
Financial assets for rating purposes							
Designated to be valuated based on fair value when recognized originally							
Available-for-sale financial assets							
Other financial assets							
Financial derivatives assets							
Investment in bonds with no public quotation	\$1,614,930	(\$377,584)	\$ -	\$ -	(\$773,753)	\$ -	\$463,593
Total	\$1,614,930	(\$377,584)	\$ -	\$ -	(\$773,753)	\$ -	\$463,593

Statement of changes in the financial liabilities at fair value classified into Tier-III

2012.1.1-2012.12.31: None.

Unit : NT\$ Thousand

Item	Balance, Jan.1,2012	Evaluation income at current income or shareholders' equity	Increase		decrease		Balance, Dec.31,2012
			Bought or issued	Transfer into Tier-III	Sold, realized or settled	Transfer out from Tier-III	
Financial liabilities at fair value through income statement							
Financial liabilities for rating purposes							
Designated to be valuated based on fair value when recognized originally							
Other financial liabilities							
Financial derivatives liabilities							
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

2011.1.1-2011.12.31: None.

Item	Balance, Jan.1,2011	Evaluation income at current income or shareholders' equity	Increase		decrease		Balance, Dec.31,2011
			Bought or issued	Transfer into Tier-III	Sold, realized or settled	Transfer out from Tier-III	
Financial liabilities at fair value through income statement							
Financial liabilities for rating purposes							
Designated to be valuated based on fair value when recognized originally							
Other financial liabilities							
Financial derivatives liabilities							
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



(2) Financial Risk Information

A. Market Risks

The Bank calculates the capital required for market risk based on standard method. When any adverse change occurs to market factors, the risk value represents potential loss of financial products as held in certain time limits and confidence levels. The Bank evaluates the risk value based on the capital to be accrued according to long and short positions of such financial products as forward exchange subject to the various currencies. The following table shows the risk value of the Bank's financial products.

Type of Market Risk	2012.12.31	2011.12.31
Foreign exchange risks	\$11,979	\$63,621
Interest rate risks	266,378	174,174
Equity exposure	31,758	7,304

B. Credit Risks

The financial products held or issued by the Bank might cause loss to the Bank as a result of the trading counterpartys' or other parties' failure to perform contractual obligations. The Bank will conduct credit investigation carefully when granting loan, committing loan and making guarantee. The secured loan accounts for 45.87% of the total loan. The average percentage of collateral held for financing security and letters of credit was 32.69%. The collateral required by the Bank for granting loan, committing loan or making guarantee generally are cash, inventory, marketable securities or other property, etc. In the event of the trading counterparty's or other party's breach of any contract, the Bank is entitled to perform compulsory execution on its collateral or guarantees to lower the Bank's credit risk effectively, provided that no fair value of the collateral will be taken into consideration when the maximum credit exposure is disclosed.

The contracts with position of fair value on the balance sheet date will be the objects of evaluation. Supplementary disclosure of the maximum credit exposure of off-balance sheet commitments and guarantees (exclusive of fair value of collaterals):

Item of Financil Instructments	2012.12.31		2011.12.31	
	Book Value	Maximum Credit Exposure	Book Value	Maximum Credit Exposure
Financial assets at fair value through income statement	\$1,459,442	\$1,459,442	\$1,615,849	\$1,615,849
Available-for-sale financial assets	19,137,095	19,137,095	11,748,424	11,748,424
Held-to-Maturity financial assets	—	—	5,566,536	5,566,536
Discounts & loans	162,044,345	162,044,345	166,215,870	166,215,870
Bonds investment without market price	422,581	422,581	513,373	513,373
Financial instruments— cost method	1,262,577	1,262,577	1,287,577	1,287,577
Commitments & ruarantees – off –balance sheet t				
Guarantees & L / C	6,836,470	6,836,470	5,774,331	5,774,331
Irrevocable loan commitment	9,870,367	9,870,367	8,089,502	8,089,502
Total	\$201,032,877	\$201,032,877	\$200,811,462	\$200,811,462

The credit risks as shown in the said table are subject to the evaluation on contracts with positive fair value on balance sheet date and off-balance sheet commitments and guarantees. The concentration of credit risks exists when financial instruments are significantly exposed to a single customer or a group of counterparties that engage in similar business activities of a similar economic nature, making the inability to fulfill their contractual obligation during an economic downturn or other similar situations. Only the financial instrument transaction, which the Bank undertakes with the Kaohsiung City Government, has the concentration of credit risks. As of December 31, 2012 and 2011, the balance of loans to the Kaohsiung City Government aggregated to \$40,639,868 thousand and \$42,458,572 thousand, respectively, representing 24.87% and 25.29% of the total outstanding loans of the Bank.

The Bank does not proceed with centralized transactions with any single customer or counterparty of any single transaction except the Kaohsiung City Government, provided that there are similar industrial types and regions. The Bank's amount of contracts with obviously centralized credit risks is as following :

Classification	2012.12.31		2011.12.31	
	Book Value	Maximum Exposure	Book Value	Maximum Exposure
Individuals	\$54,003,324	\$54,003,324	\$53,696,927	\$53,696,927
Government organization	40,653,784	40,653,784	42,476,822	42,476,822
Manufacturers	23,127,498	23,127,498	24,866,213	24,866,213
Financial and policies	8,512,123	8,512,123	9,753,199	9,753,199
Constructions	6,814,650	6,814,650	6,542,477	6,542,477

Area	2012.12.31		2011.12.31	
	Book Value	Maximum Exposure	Book Value	Maximum Exposure
Domestic	\$153,455,906	\$153,455,906	\$159,686,847	\$159,686,847
America	3,944,049	3,944,049	2,948,721	2,948,721
Asia	4,156,248	4,156,248	3,746,870	3,746,870
Europe	798,463	798,463	560,180	560,180
Africa	550,005	550,005	570,692	570,692
Oceania	492,248	492,248	386,412	386,412
Total	\$163,396,919	\$163,396,919	\$167,899,722	\$167,899,722

C. Liquidity Risk

The Bank's liquidity reserve ratio in FY2012 and FY2011 was 16.70% and 15.25%, respectively. The capital and working fund are sufficient to perform all contractual obligations. Therefore, there was no liquidity risks for failure to raise funds to perform contractual obligations. The stocks traded by the Bank are all listed (OTC) stocks with high liquidity in the market. Therefore, they are expected to be rapidly sold at a price similar to fair value in the market. The bonds held by the Bank are primarily government bonds with acceptable liquidity. Therefore, liquidity risk is not considered high. It is unlikely that the financial derivatives held by the Company could not be sold at a reasonable price in the market. Therefore, the realization liquidity risk is considered low.

The Bank's basic management policy is to coordinate the maturity dates of assets and liability and interest rates, and to control gaps. Due to uncertainty of trading terms and different types, generally it is impossible to coordinate the maturity dates of assets and liabilities and interest rates; such gaps might produce potential gain or loss. The Bank conducts analyses on maturity in appropriate grouping manner according to the nature of assets and liabilities, in order to evaluate the Bank's liquidity ability. The analyses on maturity is as following:



Financial Information

Unit : NT\$ Thousand

Item of Financial Instruments	2012.12.31			
	Due in 6 Months	6 Months ~ 1 Year	Due after 1 Year	Total
Assets				
Cash & cash equivalents	\$3,166,781	\$ —	\$ —	\$3,166,781
Due from CBC and lend to banks	22,023,147	1,079,006	1,533,261	24,635,414
Financial assets at fair value through income statement	1,263,928	—	195,514	1,459,442
Bills & bonds purchased under resale agreements	4,967,234	—	—	4,967,234
Accounts receivable – net	732,403	68,578	172,455	973,436
Discounts & loans (Note)	52,694,551	28,031,579	82,721,499	163,447,629
Available-for-sale financial assets	10,156,432	577,647	8,403,016	19,137,095
Bonds investment without market price	—	—	422,581	422,581
Total assets	\$95,004,476	\$29,756,810	\$93,448,326	\$218,209,612
Liabilities				
Due to CBC & banks	\$11,213,907	\$721,772	\$ —	\$11,935,679
Financial liabilities at fair value through income statement	613	—	—	613
Bills & bonds sold under repurchase agreements	68,914	—	—	68,914
Accounts payable	3,857,852	64,913	32,809	3,955,574
Treasury deposits	10,316,491	1,571,139	17,748	11,905,378
Time deposits	69,498,134	34,703,452	4,751,878	108,953,464
Negotiable certificate of deposit	1,969,500	425,100	—	2,394,600
Financial bonds payable	—	—	4,000,000	4,000,000
Total liabilities	\$96,925,411	\$37,486,376	\$8,802,435	\$143,214,222
Net liquidity gap	(\$1,920,935)	(\$7,729,566)	\$84,645,891	\$74,995,390

Item of Financial Instruments	2011.12.31			
	Due in 6 Months	6 Months ~ 1 Year	Due after 1 Year	Total
Assets				
Cash & cash equivalents	\$2,840,102	\$ —	\$ —	\$2,840,102
Due from CBC and lend to banks	21,355,893	1,323,994	1,454,595	24,134,482
Financial assets at fair value through income statement	1,310,311	—	305,538	1,615,849
Bills & bonds purchased under resale agreements	5,878,341	—	—	5,878,341
Accounts receivable – net	781,517	80,537	119,116	981,170
Discounts & loans (Note)	54,611,916	29,702,468	83,635,422	167,949,806
Available-for-sale financial assets	7,071,908	204,622	4,471,894	11,748,424
Held-to-Maturity financial assets	642,372	430,314	4,493,850	5,566,536
Bonds investment without market price	—	—	513,373	513,373
Total assets	\$94,492,360	\$31,741,935	\$94,993,788	\$221,228,083
Liabilities				
Due to CBC & banks	\$10,209,685	\$1,301,911	\$ —	\$11,511,596
Financial liabilities at fair value through income statement	3,837	—	—	3,837
Bills & bonds sold under repurchase agreements	103,207	—	—	103,207
Accounts payable	3,287,017	57,885	34,446	3,379,348
Treasury deposits	9,073,470	1,724,340	17,310	10,815,120
Time deposits	65,891,310	42,850,199	3,417,094	112,158,594
Negotiable certificate of deposit	3,653,300	2,032,600	—	5,685,900
Financial bonds payable	—	—	4,000,000	4,000,000
Total liabilities	\$92,221,826	\$47,966,926	\$7,468,850	\$147,657,602
Net liquidity gap	\$2,270,534	(\$16,224,991)	\$87,524,938	\$73,570,481

(Note) The amounts include overdue accounts from non-loans & short-term advances.

D. Cash Flow Risk of Changes in Interest Rate and Fair Value Risk of Changes in Interest Rate

In order to stabilize the ability to seek long-term profit and take care of the growth in business, the Bank is used to setting the various interest rate sensitivity indicators within the specific interest rate collar.

a. Estimated re-pricing date or estimated maturity date

The Bank's estimated re-pricing date and estimated maturity date were free from any effect of dates of contracts on Dec. 31, 2012 and Dec. 31, 2011. The following table shows the Bank's interest rate risks, reflected by the book value of financial assets and liabilities and reclassified based on the earlier of the maturity date or re-pricing date. The book value of the financial products held or issued by the Bank distinguished based on different re-pricing dates or maturity dates (the earlier of the dates):

nit : NT\$ Thousand

Item of Financial Instruments	2012.12.31			
	Due in 6 Months	6 Months ~ 1 Year	Due after 1 Year	Total
Asset				
Cash & cash equivalents	\$3,166,781	\$ —	\$ —	\$3,166,781
Due from CBC and lend to banks	24,635,414	—	—	24,635,414
Financial assets at fair value through income statement	1,263,928	—	195,514	1,459,442
Bills & bonds purchased under resale agreements	4,967,234	—	—	4,967,234
Accounts receivable – net	732,403	68,578	172,455	973,436
Discounts & loans (Note)	161,604,988	448,393	1,394,248	163,447,629
Available-for-sale financial assets	10,930,123	577,647	7,629,325	19,137,095
Bond investment without market price	416,737	—	5,844	422,581
Total assets	\$207,717,608	\$1,094,618	\$9,397,386	\$218,209,612
Liabilities				
Due to CBC & banks	\$11,935,679	\$ —	\$ —	\$11,935,679
Financial liabilities at fair value through income statement	613	—	—	613
Bills & bonds sold under repurchase agreements	68,914	—	—	68,914
Accounts payable	3,857,852	64,913	32,809	3,955,574
Treasury deposits	10,325,643	1,568,197	11,538	11,905,378
Time deposits	84,445,826	21,475,946	3,031,692	108,953,464
Negotiable certificate of deposit	1,969,500	425,100	—	2,394,600
Financial bonds payable	1,000,000	—	3,000,000	4,000,000
Total liabilities	\$113,604,027	\$23,534,156	\$6,076,039	\$143,214,222
Interest-rate sensitive gap	\$94,113,581	(\$22,439,538)	\$3,321,347	\$74,995,390



Item of Financial Instruments	2011.12.31			
	Due in 6 Months	6 Months ~ 1 Year	Due after 1 Year	Total
Asset				
Cash & cash equivalents	\$2,840,102	\$ —	\$ —	\$2,840,102
Due from CBC and lend to bank	21,355,893	1,323,994	1,454,595	24,134,482
Financial assets at fair value through income statement	1,310,311	—	305,538	1,615,849
Bills & bonds purchased under resale agreement	5,878,341	—	—	5,878,341
Accounts receivable — net	781,517	80,537	119,116	981,170
Discounts & loans (Note	166,001,863	145,067	1,802,876	167,949,806
Available-for-sale financial asset	8,513,905	204,621	3,029,898	11,748,424
Held-to-Maturity financial asset	988,692	83,994	4,493,850	5,566,536
Bond investment without market price	442,723	—	70,650	513,373
Total asset	\$208,113,347	\$1,838,213	\$11,276,523	\$221,228,083
Liability				
Due to CBC & banks	\$11,511,596	\$ —	\$ —	\$11,511,596
Financial liabilities at fair value through income statement	3,837	—	—	3,837
Bills & bonds sold under repurchase agreement	103,207	—	—	103,207
Accounts payable	3,287,017	57,885	34,446	3,379,348
Treasury deposit	9,082,587	1,721,433	11,100	10,815,120
Time deposit	84,589,258	26,120,731	1,448,605	112,158,594
Negotiable certificate of deposit	3,653,300	2,032,600	—	5,685,900
Financial bonds payable	1,000,000	—	3,000,000	4,000,000
Total liability	\$113,230,802	\$29,932,649	\$4,494,151	\$147,657,602
Interest-rate sensitive gain	\$94,882,545	(\$28,094,436)	\$6,782,372	\$73,570,481

Note: The amounts include overdue accounts from non-loans & short-term advances.

b. Effective interest rate : please refer to Note 10.2.

(3) Risk Control and Hedge Strategy

According to laws, the Bank considers the need for business development and overall risk acceptance ability to define the risk control and hedging strategies, in order to effectively disperse and transfer risk and to achieve the purpose of stable operation.

The Board of Directors is the supreme approving and supervising unit. Asset / Liability and Risk Management Committee is responsible to review the Bank's risk management. Risk Management Department will compile the appropriate risk management policy according to the operational environment and the Bank's entire risk condition, promote and coordinate the various business units to work with each other, in order to identify, measure and supervise the various risks, and make disclosure periodically pursuant to the requirements provided by the competent authorities.

This Bank makes disclosures risk information periodically pursuant to the competent authority's requirements, and the various supervising units of business evaluate, update and control risks periodically in accordance with this Bank's "Risk Management Policy and Procedure", "Regulations Governing Risk Management", "Capital Risk Management Guidelines", "Credit Risk Management Guidelines", "Operating Risk Management Guidelines", "Market Risk Management Guidelines", "Guidelines for Interest-rate and Liquidity Risk Management", "Legal Risk

Management Guidelines” and “Guidelines for National Risk Tolerance”, and also handle the compliance with risk management laws and regulations in accordance with this Bank’s “Regulations for Complying With Regulations and Procedures”, in hopes of well founding this Bank’s risk management system.

This Bank’s risk management systems are outlined as following:

A. Capital adequacy management

Item	Contents
Overview of the Bank’s current and future business, and evaluation method of capital adequacy	<p>According to the competent authority’s laws and regulations on owned capital structure and important business policies, the Bank evaluates the profile of risk to be suffered by it in the future and periodically prepares the capital adequacy evaluation report and submit the same to the Board of Directors.</p> <p>To deal with the development of risk assessment technology, the Bank applies the “up-to-down method” (Analysis of fluctuation in earnings) and “down-to-up” (Analysis of statutory capital) based on the statutory capital to estimate the reasonable capital, and adopt higher capital requirement based on the principles of stability.</p> <p>To reflect the Bank’s operation continuity in the scenario of pressure, the Bank’s capital adequacy evaluation process also takes into consideration the potential maximum credit and market risk loss and changes in the banking book interest rate risk economic value, and also the relevant risk pressure test result, to evaluate and plan the capital adequacy based on the principle of stability.</p> <p>To monitor the capital adequacy and maintain internal capital adequacy objective, the Bank’s Risk Management Division will calculate and monitor the changes in the capital adequacy on a quarterly basis to ensure the capital adequacy.</p>

B. Credit Risks Management System

Item	Contents
1 Credit risks strategy, target, policy and flow	<ul style="list-style-type: none"> ■ Strategy The Bank adopts stable credit extension strategies, adjust local finance, help public works, boost industrial and commercial development, strengthen financing to small- and medium-size enterprises, upgrade credit extension quality and achieve the Bank’s purpose and business objectives. To increase the profit margin and take risk into account, business strategies should be included in annual operational plans (Ex. increase guarantee fund guarantee credit extension transferred by small-and medium-size enterprises and loans to city governments), and adjusts its loan portfolio from time to time in response to future political and economic developments. ■ Target The Bank’s credit risk management objective is to establish the credit risk management mechanism recognized and complied with throughout the Bank, to identify, measure and control the credit risk to be borne by the Bank, ensure that the Bank’s credit risk is maintained within the tolerable extent, maintain the balance between the credit risk and remuneration borne by the Bank and keep the adequate credit risk capital to manage the Bank’s credit risk stably. ■ Policy In order to fulfill the Bank’s credit risk management strategies, the Bank defines the following relevant credit risk management policies and regulations: <ul style="list-style-type: none"> ◆ Investigation/credit extension procedure: Stipulate the procedure to standardize the review procedure for credit extension applications, strengthen the internal management and upgrade the service efficiency. ◆ Approving authority: Stipulate the approving authority for credit extension cases, and provide the relevant licensing standards and approving procedure with respect to the change of credit extension terms to achieve the divisional responsibility and shorten the credit extension procedure.



Item	Contents
	<ul style="list-style-type: none"> ◆ Limit of credit extension: Sets the limit of credit extension and combined credit limit with respect to counterparts, industries, territories and nations, and plans and controls the credit extension portfolio in a timely manner lower credit extension risk. ◆ Risk pricing: Determine cost of risk that corresponds to internal rating of customers, and put into pricing of products. ◆ Post-loan management and risk control: The follow-up and appraisal case by case upon granting the loans, so that it might take appropriate steps to protect the credit right, if necessary. <ul style="list-style-type: none"> • Audit on loans: Audit on the compliance with review procedure and laws and regulations about credit investigation procedure for loaning. • Reexamine credit extension: The credit extension and reexamination are handled by different persons. According to the extent of risk exposure, periodic and irregular reexamination on credit extension shall be conducted in writing or in the form of on-site survey, to verify whether the credit extension customers may utilize the loan truly in accordance with the original plan and perform the contract and other agreements. Additionally, the branch's location, international economic condition and change in local political and economic condition are also the reference for frequency of the recheck. • Control of credit extension quality: The Bank's business supervising entities supervise and control business entities, overestimated extension credit. ◆ NPL management: Apart from stringent collection procedures and allowances for overdue loans pursuant to the competent authority's laws and regulations, in order to accelerate clearing NPL, the Bank also defines the guidelines governing the sale of NPL. ◆ Accounting management: The credit extension accounting and archive are handled by the dedicated persons, and the procedure for documentation and archive is defined. ■ Flow <p>The Bank's credit risk management procedures are categorized as identification, measurement, communication and control:</p> <ul style="list-style-type: none"> ◆ Identification : <p>Source of credit risk, including borrowers' default risk, deterioration of credit rating, collateral devaluation, the defaults of financial derivative issuers or counterparties etc. The identification of credit risk must also account for internal operations and changes in the external environment when determining proper risk factors.</p> <p>The Bank's credit risk management procedures require that each business entity should verify the credit risk involved therein before underwriting any business, and also identify the possibility of breach in the process of credit extension, investment or transaction.</p> ◆ Measurement : <p>Depending on the trading counterpart, purpose of capital, source of repayment, protection of credit right and prospect of borrowers, the Bank collects credit information and evaluates the credit extension applications..Also, the Bank establishes an internal rating system to properly assess and monitor customers' credit risks. Major factors of credit assessment include: internal ratings, external ratings, impairment probabilities, loss given default, the exposure, the likelihood of asset impairment, the statutory capital etc.</p> ◆ Communication : <p>Risk management units report regularly to senior executives all information relating to credit risk management. This information is also communicated to the board of directors and disclosed to the public on a regular basis.</p> ◆ Monitor and Controlling : <p>The scope of credit risk management covers credit risks arising from all on-balance sheets as well as off-balance sheet items. Through information systems, the bank monitors and manages various limits imposed on credit assets to ensure that credit asset composition, concentration, and large exposures are within manageable levels.</p> <p>The Bank's credit risk control mechanism covers credit extension risk management, limit management, assessment of collateral, asset quality management, post-loan management, extraordinary credit extension management and investment risk control.</p>

Item	Contents
<p>2. Credit risks management organization and structure</p>	<p>The Bank's credit risk management organization and structure as following:</p> <ul style="list-style-type: none"> ◆ Board of Directors: authorize the important credit risk policies according to the entire operating strategies and business environment to ensure the effective operation of credit risk management, which is the supreme policy-making entity of the Bank's credit risk management. ◆ Credit Evaluation Committee: responsible for evaluating credit applications that require levels of approval authority higher (inclusive) than Deputy General Managers. ◆ Investment Evaluation Committee: responsible for evaluating the investment in securities. ◆ Risk Management Dept.: responsible for integrating the Bank's credit risk management operation, summarizing the Bank's credit risk management information and reporting it to Board of Directors periodically, and handling the credit risk capital charge and disclosure of information pursuant to the competent authority's requirements. ◆ Business Supervising Entities: know the credit risk of the business handled by them, include the risk management when defining the various business requirements, and managing and supervising the business entities' execution of business, and helping Risk Management Dept. complete the control of the Bank's credit risk. ◆ Business Entities: Comply with the Bank's credit investigation, credit extension and credit risk management requirements to engage in the routines for credit risk management, confirm the accuracy and sufficiency of the information, and report to the various business supervising entities or Risk Management Division pursuant to the requirements.
<p>3. Report of credit risks, scope and features of measuring system</p>	<p>(1) E-Loan System The establishment of the E-Loan system started in connection with credit information system provided by the Joint Credit Information Center, the check inquiry system of Taiwan Clearing House, and land administration database. Since E-Loan performs analyses based on borrowers' historical risk factors stored in system database, the system make it possible to manage credit risks using statistical management.</p> <p>(2) Internal Rating System The Corporate Banking segment adopted an expert model scorecard for credit rating, while the Consumer Banking segment adopted a personal credit rating scorecard. These scorecards were developed by the Credit Assessment Department of the bank's Credit Administration Division based on fundamental credit theories, and historical experience characteristics of borrowers, debt servicing capabilities, prospects, and collaterals are also taken into consideration for a complete credit assessment and effective segregation of customers' risk grades.</p> <p>(3) External Rating System The Taiwan Corporate Risk Index (TCRI) published by Taiwan Economic Journal (TEJ) is used to evaluate the credit risks of companies listed on Taiwan Stock Exchange, GreTai Securities Market, Emerging Stock Market, and other stock exchanges.</p> <p>(4) Management of Concentration risk The bank regularly and irregularly monitors credit risk exposures through various perspectives based on risk management reports. Caps were imposed to ensure close monitoring of concentration risk. Country risk, borrowers credit rating distribution, large loans, borrowers' industry types, compliance with The Banking Law, single borrower exposure, related party exposure, and single group exposure etc. are monitored regularly.</p>

Item	Contents
	<p>(5) Stress Testing</p> <p>A. The Bank set the “Minor” and “Severe” pressure scenario based on the overall economic environment (e.g. economic growth rate, unemployment rate and house price), corporate banking (operating revenue of public non-electronic/electronic manufacturers/service suppliers, and operating revenue of non-public non-electronic/electronic manufacturers/service suppliers), and consumer banking (e.g. collateral for real estate in various districts, house price in various districts, revenue of military, government officer and teacher, and revenue of advantaged/general/disadvantaged groups in the market).</p> <p>B. Structure the risk based on the loans to sale ratio, full security ratio, CLTV and DBR.</p> <p>C. The expected loan, credit derivative products and investment loss is estimated by multiplying by PD provided by JCIC and LGD and EAD of the Bank (PDxLGDxEAD) to complete the pressure test and evaluate the Bank’s ability to tolerate loss.</p> <p>Risk Management Division will conduct a pressure test each year, and submit the pressure test report to Board of Directors for approval, and then to FSC.</p>
<p>4. Credit risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools</p>	<p>(1) Collateral Management The bank has established policies and limits relating to the categories and quantities of collaterals, and the exposures they are permitted to secure. These collaterals are revalued through proper procedures and are inspected on a regular or irregular basis. In addition, the bank performs due diligence assessments on the coverage and legality of guarantees provided by guarantor over debt entitlements to ensure the effectiveness of credit guarantees, which also forms part of a credit decision.</p> <p>(2) Post-Lending Management The bank conducts regular credit reviews on approved credit cases. Customers of different risk grades are subject to varying extents and frequencies of reviews and limit caps. These regular reviews facilitate the bank’s apprehension and response over changes in customers’ risks.</p> <p>(3) External Credit Guarantees Lending to small and medium enterprises with weaker credit quality or insufficient collateral may be enhanced through the guarantees of the “Small and Medium Enterprise Credit Guarantee Fund”. According to The Banking Law, credit guarantee institutions approved by the government may provide guarantees for the benefit of bank.</p> <p>(4) Credit risk Audit Policy The internal audit unit performs regular audits over the progress and process of credit product initiation, credit policy establishment, credit assessments, debt management etc to properly monitor credit risk.</p>
<p>5. Methods adopted to legal capital charge</p>	<p>Standardised approach.</p>

C. Operational Risks Management System

Item	Contents
<p>1. Operational risks management strategy and flow</p>	<p>■ Strategy Through the establishment of an operational risk management system, the bank seeks to quantify and formalize operational risk management as part of sound corporate governance. The bank monitors operational risks of its various business activities through proper risk management policies, procedures, and tools in an attempt to minimize potential losses, strengthen our business foundation, and increase shareholders’ equity.</p>

Item	Contents
	<ul style="list-style-type: none"> ■ Flow <p>Through operational risk data collection, key risk indicators system (KRI) and operational risk control self-assessments (RCSA), the banks seeks to enhance operational risk identification, measurement, communication and control to reduce operational risk, and deliver higher service quality.</p> ◆ Identity <p>Business units are responsible of identifying, assessing, and reporting the potential risks within the bank's operating procedures. If the evaluation result shows a high-risk level, it is necessary to explore the root cause and propose "correction action", and propose countermeasure against the loss of specific amount to prevent, control or reduce the operational risk.</p> ◆ Measure : <p>Ensure systematic collection of loss events data, key risk indicators system, risk control self-assessments, establishment of a loss database, collection of key indicator data, and risk assessment of core businesses to facilitate effective documentation, evaluation, analysis, and management of operational risks.</p> ◆ Communication : <p>In the occurrence of an operational risk event, the unit where the event has occurred must report promptly the area of responsibility and the nature of event through proper procedures. The risk management unit consolidates operational risk management information regularly from various sources and compiles operational risk analysis reports.</p> ◆ Monitor and Controlling : <p>Gain an understanding of operational risk exposures through analyses of quarterly loss statistics; produce regular operational risk reports for each business unit to supervise rectification within their areas of responsibility, and to strengthen the bank's business foundation.</p>
<p>2. Operational risks management organization and structure</p>	<p>The operating risk management organization and structure include Board of Directors, Business R&D Taskforce, Trust Property Evaluation Committee, Risk Management Dept., business supervising entities and business entities, Responsibilities are specified as following:</p> <ul style="list-style-type: none"> ◆ Board of Directors: authorize the important Operational risks policies according to the entire operating strategies and business environment to ensure the effective operation of credit risk management, which is the supreme policy-making entity of the Bank's credit risk management. ◆ Business R&D Taskforce: responsible for the renovation projects, research and suggestions of the Bank's businesses. ◆ Trust Property Evaluation Committee: evaluate whether the trust property is utilized in conformity with the relevant laws and regulations, and also the trust deed. ◆ Risk Management Dept.: responsible for integrating the Bank's operational risks, summarizing the Bank's operational risks management information and reporting it to Board of Directors periodically, and handling the operational risks capital charge and disclosure of information pursuant to the competent authority's requirements. ◆ Business Supervising Entities: know the operational risks of the business handled by them, include the risk management when defining the various business requirements, and managing and supervising the business entities' execution of business, and helping Risk Management Dept. complete the control of the Bank's Operational risks. ◆ Business Entities: comply with the relevant operational guidelines and internal control regulations to engage in the routines for operating risk management, confirm the accuracy and sufficiency of the information, and report to the various business supervising entities or Risk Management Dept. pursuant to the requirements.

Item	Contents
<p>3. Operational risks scope and features of managing report, measuring system</p>	<p>The bank incorporates the three functions of “Collection of loss data”, “key risk indicators system”, and “operational risk control self-assessments” to enhance operational risk management.</p> <p>(1) Loss Data Collection(LDC)</p> <p>The system collects loss event data and categorizes it into 8 business activities and 7 major loss events to facilitate future assessments of possible losses, other relevant expenses, recoverable amounts, and potential impacts.</p> <p>(2) Key Risk Indicator (KRI)</p> <p>The system captures major indicators across 5 areas (internal operations, personnel, system, external events, and overall) at various frequencies of observation (monthly, quarterly, semi-annually, and annually) and analyzes operational risks by monitoring statistical changes through time.</p> <p>(3) Risk Control Self-Assessment (RCSA)</p> <p>Through the RCSA system, the bank’s core business units including deposit, credit, foreign currencies, wealth management, IT, accounting, treasury etc perform self-assessments at each risk control point based on practical experience, with specific emphasis on “frequency of occurrence” and “magnitude of impact (including financial and non-financial losses)”. The information system automatically calculates risk scores and assigns high, medium, and low level monitoring according to the risk matrix; the system then checks the self-assessment results and operational risk events against inspection checklist.</p> <p>In the occurrence of an operational risk event, the unit where the event has occurred must report promptly the area of responsibility and the nature of event through proper procedures to each management personnel.</p> <p>The risk management unit analyzes and compiles data reported by business units, operational risk events collected by the loss event database, key risk statistics from the key risk indicators system, and self-assessment results and reports to senior executives. These reports will be disseminated to the relevant business unit supervisors and provide the basis for future rectification.</p>
<p>4. Operational risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools</p>	<ul style="list-style-type: none"> ■ Categorize operational risk according to business procedures. Identify the main factors of risk formation through risk descriptions. ■ Assess risks based on “frequency of occurrence” and “magnitude of impact (including financial and non-financial losses)” and impose control measures to manage risk. ■ Assess risks on a regular basis. Appropriate measures must be taken and the Board of Directors must be informed immediately upon the discovery of major exposures capable of jeopardizing the bank’s financial position, business operations, or regulatory compliance. ■ Mitigate risks against proper uses of insurance instruments. Establish emergency responsive tactics to ensure business continuity in the occurrence of extraordinary events.
<p>5. Methods adopted to legal capital charge</p>	<p>Basic indicator approach.</p>

D. Market Risks Management System

Item	Contents
<p>1. Market risks management strategy and flow</p>	<ul style="list-style-type: none"> ■ Strategy Adhering to the trading strategies of safety, liquidity, profitability and dispersion of risk, the Bank establishes the market risk management mechanism recognized and complied with throughout the Bank, to identify, measure and control the market risk to be borne by the Bank, and keep the adequate market risk capital to manage the Bank's market risk stably. ■ Flow <ul style="list-style-type: none"> ◆ Identify : Market risks of financial products and trading activities involved in every business must be comprehended prior to initiation. The scope of risk identification covers the positions of interest rate and equity securities in trading books and the positions of foreign exchange and commodities. Risk factors include interest rate, exchange rate, stock price and commodity price. ◆ Measure : The values at risk (VaR), VaR ratios, average VaR to net equity ratio, β of equity stocks and funds, unrealized gains/losses of trading book positions, and duration of interest-based instruments including various financial instruments and investment portfolios are assessed regularly according to the basic assumptions and market risk evaluation methods (variance co-variance, historical simulation, Monte Carlo Simulation) stipulated by the new Basel Capital Accord and the Financial Supervisory Commission. DVO1 is used to determine changes to gains/losses on interest-based instrument portfolios given a 1bp (0.01%) change in the interest rate. ◆ Communication : The Bank's risk management personnel shall report market risk management information including investment portfolio composition, limit management, exposure, VaR, and unrealized gains/losses etc to management personnel to facilitate decision making. The risk management division consolidates the book values and gains/losses on revaluation of all investment positions to compile "Risk evaluation reports". These reports are subject to quarterly reviews by the Asset and Liability Risk Management Committee, and will be presented to the Board of Directors upon the committee's approval. ◆ Monitor and Controlling : The bank's market risk management unit is independent of the trading unit, and reports regularly to the Asset and Liability Risk Management Committee the utilization of market various risk caps. The Bank defines the control mechanism over limit management, and evaluates the income of invested objects and reports it to the management to prevent the excess in limits, and takes the measures to realize the profit, stop loss or reduce exposure depending on any change in the market price.
<p>2. Market risks management organization and structure</p>	<p>The market risks management organization and structure include Board of Directors, Assets & Liabilities and risk Management Committee, Investment Evaluation Committee, Risk Management Dept., and business supervising entities, which are specified as following:</p> <ul style="list-style-type: none"> ◆ Board of Directors: authorize the important market risks policies according to the entire operating strategies and business environment to ensure the effective operation of credit risk management, which is the supreme policy-making entity of the Bank's credit risk management.



Item	Contents
	<ul style="list-style-type: none"> ◆ Assets & Liabilities and Risk Management Committee: responsible for utilization of capital in NTD and foreign currencies, capital utilization plans and interest rate sensitivity analysis, strengthening the comprehensive assets & liabilities management, adjusting the operating policies in a timely manner, and seeking stable earnings and growth. ◆ Investment Evaluation Committee: responsible for evaluating the investment in securities. ◆ Risk Management Dept.: To be responsible for the Bank's overall Market risk management operation, summarizing the Bank's market risks management information and reporting it to Board of Directors periodically, and handling the market risks capital charge and disclosure of information pursuant to the competent authority's requirements. ◆ Business Supervising Entities: know the market risks of the business handled by them, include the risk management when defining the various business requirements, and managing and supervising the business entities' execution of business, and helping Risk Management Dept. complete the control of the Bank's Operational risks.
<p>3 Market risks scope and features of managing report, measuring system</p>	<p>(1) The bank adopted the statistical model of the VaR evaluation system published by the Taiwan Economic Journal (TEJ), and supplied data from the Bloomberg system to develop an independent, rational, and accurate risk quantification mechanism. This model is used to evaluate the exposure and gains/losses of financial instruments and investment portfolios under the trading book. Descriptions are as follows:</p> <ul style="list-style-type: none"> ■ In reference to the assumptions of the New Basel Capital Accord and the Financial Supervisory Commission: <ul style="list-style-type: none"> ■ 99% one-tail confidence level. ■ One year of historical observations (about 250 business days). ■ Holding periods of 1 and 10 business days. ■ Risk evaluation methods <ul style="list-style-type: none"> ■ Variance and Co-variance. ■ Historical simulation. ■ Monte Carlo Simulation. ■ Quantified assessment coverage <ul style="list-style-type: none"> ■ VaR. ■ VaR ratio. ■ Average VaR to net equity ratio ■ β of equity stocks and funds. ■ Unrealized gains/losses. <p>(2) Pressure test Set the "Minor" and "Severe" pressure scenario for "domestic" and "foreign" equity securities, trading book of interest rate, gold and foreign exchange rate and commodities to evaluate the expected investment loss under minor and severe scenario and evaluate the Bank's ability to tolerate loss. Risk Management Division will conduct a pressure test each year, and submit the pressure test report to Board of Directors for approval, and then to the FSC.</p>
<p>4. Market risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools</p>	<ul style="list-style-type: none"> ■ Avoid over-exposure by evaluating the rationality of risk-return trade-off, based on historical VaR and VaR ratios, and the average commodity yield. ■ In accordance with the Bank's limit and market risk management mechanism and policies, if the market risk exposure is attained and some proper actions need to be taken, the Bank will take the trading strategies to reduce exposure to a manageable level, e.g. sell call option, put option, write-off or swap. ■ The risk management unit and senior executives are responsible of monitoring the effectiveness of hedging strategies and adjust accordingly when necessary.
<p>5. Methods adopted to legal capital charge</p>	<p>Standardised approach.</p>

E. Asset Securitization Management System

Item	Contents
1. Asset securitization risk management strategy and flow	The Bank only engages in the investing activities with respect to asset securitization products, and never played the role of founding bank, service organization, credit enhancement organization or liquidity financing provider. The investment policies and management procedure with respect to asset securitization products shall be managed in accordance with the Bank's rules for management of marketable securities.
2. Asset securitization risk organization and structure	The credit risk, interest rate risk and liquidity risk generated from the investing activities in asset securitization products shall be controlled according to the probability of default that corresponds to the credit grade, or relevant risk management organization and structure of credit and market, etc..
3. Asset securitization risk scope and features of managing report, measuring system	The trading entities and risk management entities shall conduct risk evaluation on high-risk products periodically, and report it to the high-rank officers.
4. Asset securitization risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools	The Bank never played the role of the originator bank or liquidity financing provider and, therefore, has not yet developed any policies related to the asset securitization hedging or risk reduction. If the Bank wishes to engage in said business, it is necessary to define the relevant management policies first.
5. Methods adopted to legal capital charge	Standardised approach.

F. Banking book interest rate risk management strategy and process

Item	Contents
1. Banking book interest rate risk management strategy and process	<ul style="list-style-type: none"> ■ Strategy Select adequate asset and liability portfolio and pricing strategy to evade or reduce the risk potentially arising from fluctuation in interest rate and achieve the goal to maximize earnings. ■ Flow <ul style="list-style-type: none"> ◆ Identification The Bank identifies the following sources of risk in the banking book on and off the balance sheet: <ul style="list-style-type: none"> ■ Re-pricing risk ■ Basis risk ■ Yield rate curve risk ◆ Measurement For the time being, the Bank primarily adopts the interest rate sensitivity gap to measure the banking book interest rate risk, and Pressure test has been applied regularly to asset the risks from two perspectives. <ul style="list-style-type: none"> ■ View of earnings: The period for analysis of earnings covered 12 months during which the change in interest sensitivity gap and the ratio of net worth shall be assessed. ■ View of economic value: The potential influence of the change in interest rate on the economic value of the Bank is assessed on the basis of standard interest rate volatility and the mandatory ratio of capital.



Item	Contents
	<ul style="list-style-type: none"> ◆ Communication The Bank's Financial Administration Division and International Banking Division will prepare the interest rate sensitivity balance sheet analysis in NTD and USD on a monthly basis, and submit the same to the "Asset and Liability and Risk Management Committee" and "Board of Directors" on a quarterly basis, via Risk Management Division. ◆ Monitor and Controlling The Bank has defined the monitoring mechanism for the measuring indicators for interest rate risk, and will submit the same to Asset and Liability and Risk Management Committee for review and approval, and then to Board of Directors.
<p>2. Banking book interest rate risk management organization and structure</p>	<p>The banking book interest rate risk management organization and structure includes Board of Directors, Asset and Liability and Risk Management Committee, Risk Management Division, Financial Management Division and business units dedicated to the following responsibilities:</p> <ul style="list-style-type: none"> ◆ Board of Directors: To authorize the important policies over banking book interest rate risk management and monitor the effective operation of the risk mechanism based on the overall operating strategies and operating environment, as the supreme decision-making unit of the Bank's banking book interest rate risk. ◆ Asset and Liability and Risk Management Committee: To be in charge of the allocation and utilization of funds in NTD and foreign currencies, fund utilization plan and interest rate sensitivity analysis, and to enhance the consolidated asset and liability management, adjust operating policies in a timely manner and seek stable earnings and growth. ◆ Risk Management Division: To be responsible for the Bank's overall risk management operation, summarize and report the intra-bank risk management information to Board of Directors, and disclose the banking book interest rate risk pursuant to the competent authority's requirements. ◆ Financial Management Division: To have full knowledge of the entire banking book interest rate risk, define various adequate business rules, execute the asset & liability portfolio and pricing strategy resolved by "Asset and Liability and Risk Management Committee", monitor potential risk in interest rate fluctuation, deal with emergencies and any crisis, and take appropriate countermeasures as required. ◆ Business Entities: Fulfillment of asset and liability management: Interest rate pricing shall comply with the market trend and follow the Bank's large-value fund reporting mechanism to help Financial Management Division control the source and utilization of fund.
<p>3. Scope, characteristics and frequency of banking book interest rate risk report/measuring system</p>	<p>The Bank's asset and liability management system measurement includes assets and liabilities with interest and without interest, and output of monthly Analysis of interest rate sensitivity assets and liabilities statement:</p>
<p>4. Banking book interest rate risk hedging/mitigation policies, and strategy and process for monitoring continuous validity of tools for hedging/mitigating risk</p>	<p>The Bank monitors the interest rate risk in NTD and major foreign currencies based on RSA/RSL, gap position and ration of net value. If it is necessary for foreign currency positions, the Bank will hedge the risk by derivative products, e.g., interest rate swap. The duration of contract, periodic evaluation mode, limit, pressure test and internal audit thereof will be defined in the Bank's "Financial Derivatives Operating Procedure" and "Financial Derivatives Risk Management Regulations".</p>

10.2. Others

(1) Average Balance & Interest Rate of Interest-Earning Assets & Liabilities

	2012.1.1-2012.12.31	
	Average Balance	Average Interest Rate
Assets		
Due from banks	461,045	0.02
Due from CBC and lend to banks	19,505,888	0.75
Financial assets at fair value through income statement	1,701,098	1.05
Discounts & loans	161,649,208	2.09
Available-for-sale financial assets	14,926,750	1.98
Held-to-Maturity financial assets	3,509,881	2.60
Bond investment without market price	1,252,386	0.82
Bills and bonds purchased under resale agreements	6,685,578	0.85
Liabilities		
Bills and bonds sold under repurchase agreements	75,755	0.62
Due to CBC & banks	12,250,109	1.13
Treasury deposits	11,179,818	0.67
Demand deposits	63,548,868	0.38
Time deposits	108,504,855	1.19
Negotiable certificate of deposit	3,590,459	1.00
Financial bonds	4,000,000	2.87

	2011.1.1-2011.12.31	
	Average Balance	Average Interest Rate
Assets		
Due from banks	397,701	0.03
Due from CBC and lend to banks	21,842,442	0.71
Financial assets at fair value through income statement	1,630,996	0.88
Discounts & loans	162,482,760	1.92
Available-for-sale financial assets	7,641,338	2.60
Held-to-Maturity financial assets	7,062,093	2.79
Bond investment without market price	2,585,405	0.93
Bills and bonds purchased under resale agreements	5,011,225	0.74
Liabilities		
Bills and bonds sold under repurchase agreements	129,405	0.48
Due to CBC & banks	12,215,581	1.49
Treasury deposits	10,738,328	0.57
Demand deposits	61,474,477	0.36
Time deposits	110,196,418	1.04
Negotiable certificate of deposit	4,194,281	0.83
Financial bonds	4,000,000	2.84



(2) Loans Quality, Concentration of Loans, Interest-Rate Sensitive Information, Profitability and Maturity Analyses of the Bank's Assets & Liabilities

A. Non-Performing Loans and Accounts

Unit : NT\$ Thousand,%

Date		2012.12.31					
Business / Item		Total NPL	Total loans	NPL %	Provision for credit loss	Coverage %	
Corporate financial	Secured	321,317	31,112,323	1.03	327,920	102.05	
	Non-Secured	563,769	78,136,098	0.72	863,772	153.21	
Consumer financial	Home mortgage loan (Note 4)	259,285	28,873,519	0.90	98,242	37.89	
	Cash card	—	1,189,442	—	595	—	
	Micro credit loan (Note 5)	49,486	1,554,081	3.18	18,951	38.30	
	Others (Note 6)	Secured	197,534	20,703,254	0.95	41,700	21.11
		Non-Secured	3,169	1,828,202	0.17	1,394	43.99
Total loan business		1,394,560	163,396,919	0.85	1,352,574	96.99	
Item		Non-Performing accounts	Accounts receivable	Non-Performing accounts %	Provision for credit loss	Coverage %	
Business							
Credit card business		—	198,278	—	1,617	—	
Factoring business (Note 7)		—	—	—	—	—	

Date		2011.12.31					
Business / Item		Total NPL (Note 1)	Total loans	NPL % (Note 2)	Provision for credit loss	Coverage % (Note 3)	
Corporate financial	Secured	394,036	32,609,185	1.21	463,273	117.57	
	Non-Secured	814,361	81,442,210	1.00	1,015,195	124.66	
Consumer financial	Home mortgage loan (Note 4)	294,349	29,861,898	0.99	107,357	36.47	
	Cash card	—	1,389,049	—	695	—	
	Micro credit loan (Note 5)	49,051	1,623,691	3.02	26,967	54.98	
	Others (Note 6)	Secured	186,816	19,407,950	0.96	67,453	36.11
		Non-Secured	2,644	1,565,739	0.17	2,912	110.14
Total loan business		1,741,257	167,899,722	1.04	1,683,852	96.70	
Item		Non-Performing accounts	Accounts receivable	Non-Performing accounts %	Provision for credit loss	Coverage %	
Business							
Credit card business		10	189,386	0.005	1,551	15.510	
Factoring business (Note 7)		—	—	—	—	—	

Note 1: The non-performing loans have been implemented in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due-Performing Loans". The non-performing credit card debt is based on the non-performing debt specified in the official letter under Ching-Kuan-Ying (4) Tze No. 0944000378 dated July 6, 2005.

Note 2: NPL ratio = Non-performing loans / Total loans

Credit card's NPL ratio = Non-performing accounts / Total accounts receivable.

Note 3: Coverage ratio of allowance for NPL = allowance for NPL / NPL; coverage ratio of allowance for credit card NPL = allowance for credit card NPL / non-performing debt.

Note 4: Home mortgage loan means that the borrower provides the residence purchased (owned) by himself / herself or his / her spouse or minors as collateral in full and pledges it the financial organization to seek funds, for the purpose of building the residence or decorating the house.

Note 5: Micro credit loan shall apply the micro credit loan specified in the official letter under Ching-Kuan-Ying (4) Tze No. 09440010950 dated December 19, 2005 and shall be that other than the credit loan upon credit card and cash card.

Note 6: "Others" specified in consumer banking mean the secured or non-secured consumer banking loans other than "home mortgage loans", "cash card" and "micro credit loans", exclusive of credit card.

Note 7: Without recourse factoring shall be reported as NPL within three months upon the factor's or insurance company's rejection of claims, in accordance with the official letter under Ching-Kuan-Ying (5) Tze No. 094000494 dated Jul. 19, 2005.

B.Exempt from Declare of Non-Performing Loans or Accounts Receivable

Unit : NT\$ Thousand

Item	2012.12.31		2011.12.31	
	The Total Balance of Loans Which Need Not be Classified as NPL	The Total Balance of Accounts Receivable Which Need Not be Classified as Overdue Accounts Receivable	The Total Balance of Loans Which Need Not be Classified as NPL	The Total Balance of Accounts Receivable Which Need Not be Classified as Overdue Accounts Receivable
The total amount of loans which need not be classified as NPL upon debt restructuring and performed as agreed". (Note.1)	1,422	451	1,911	663
The total amount of loans upon performance of a debt discharge program and rehabilitation program. (Note.2)	153,452	296	159,120	349
Total	154,874	747	161,031	1,012

Note 1: Supplementary disclosure of credit cases approved under the "Unsecured Consumer Debt Reform Scheme of the Bankers Association of The Republic of China" in accordance with the official letter under Ching-Kuan-Ying (1) Tze No.09510001270 dated Apr.25 ,2006

2: Supplementary disclosure of credit on involvements in any of the preliminary negotiations, reform, and clearance of debt in relation to the "Statute for Consumer Debt Clearance" in accordance with the official letter under Ching-Kuan-Ying (1) Tze No.09700318940 dated Sep. 15, 2008

C.Concentration of Credit Risk

2012.12.31

Unit : NT\$ Thousand, %

Rank (Note 1)	Industry Category of the Company or Group (Note 2)	Total Loan Balance (Note 3)	Ratio to the Stockholders' Equity (%)
1	A Group – Stadium and gym business industry	1,871,281	17.16%
2	B Group – Ships, boats, and parts manufacturing	1,419,412	13.01%
3	C Group – Real estate development	1,000,959	9.18%
4	D Group – Real estate development	945,500	8.67%
5	E Group – Steel rolling and extruding	915,972	8.40%
6	F Group – Real estate Leasing and Sale	906,856	8.32%
7	G Group – Other financial intermediaries	749,890	6.88%
8	H Group – Stadium and gym business industry	583,305	5.35%
9	I Group – Other merchandise retailing	565,274	5.18%
10	J Group – Manufacturing of automobile electrical system.	550,000	5.04%

2011.12.31

Rank (Note 1)	Industry Category of the Company or Group (Note 2)	Total Loan Balance (Note 3)	Ratio to the Stockholders' Equity (%)
1	A Group – Stadium and gym business industry	1,807,500	17.44%
2	B Group – Real estate development	1,688,340	16.29%
3	C Group – Ships, boats, and parts manufacturing	1,472,203	14.21%
4	D Group – Petroleum and Coal Products Manufacturing	1,372,670	13.25%
5	E Group – Steel rolling and extruding	1,143,025	11.03%
6	F Group – Investment advisor	960,141	9.26%
7	G Group – Wastewater (polluted) treatment industry	716,428	6.91%
8	H Group – Smelting of aluminum	702,596	6.78%
9	I Group – Automotive retail industry	670,000	6.47%
10	J Group – Industrial rubber manufacturing	615,640	5.94%

Note 1: The top ten groups other than governmental or public enterprises are ranked in the order of the total balance of credit extension to the groups

2: The groups shall comply with the definition referred to in Article 6 of "Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings".

3: The total balance of credit extension means the total of balance of the various loans (including import negotiation, export negotiation, rebate, overdraft, short-term loan, short-term collateral, receivable amount for margin loans, mid-term loan, mid-term collateral, long-term loan, long-term collateral and collection), remittance purchased, without recourse factoring, receivable acceptance and guarantee payment.

4: For the calculation of total outstanding credit balance as a percentage of current net worth, the net worth of the Head Office is applicable to local banks, while the net worth of the local branch is applicable to foreign bank branches in Taiwan.

D. Interest-Rate Sensitive Information

Interest-Rate Sensitive Analyses of the Bank's Assets & Liabilities (NTD)

2012.12.31

Unit : NT\$ Thousand,%

Item	1-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Interest-rate sensitive assets	176,592,312	10,574,300	746,111	3,061,012	190,973,735
Interest-rate sensitive liabilities	66,499,425	86,564,947	22,850,607	6,062,731	181,977,710
Interest-rate sensitive gap	110,092,887	(75,990,647)	(22,104,496)	(3,001,719)	8,996,025
Shareholders' equity					10,393,427
The ratio of interest-rate sensitive assets & liabilities (%)					104.94
The ratio of interest-rate sensitive gap & shareholders' equity (%)					86.55

2011.12.31

Item	1-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Interest-rate sensitive assets	182,306,679	7,999,234	159,071	3,948,426	194,413,410
Interest-rate sensitive liabilities	74,685,636	78,899,519	28,751,070	4,466,419	186,802,644
Interest-rate sensitive gap	107,621,043	(70,900,285)	(28,591,999)	(517,993)	7,610,766
Shareholders' equity					10,590,907
The ratio of interest-rate sensitive assets & liabilities (%)					104.07
The ratio of interest-rate sensitive gap & shareholders' equity (%)					71.86

Note: The statement shows the amount NTD of the Head Office, domestic and abroad business units, except foreign currencies.

Interest-rate sensitive assets & liabilities means for the earning assets and interest liabilities are with the income and / or cost affected by interest rate.

Interest-rate sensitive gap = Interest-rate sensitive assets – Interest-rate sensitive liabilities

The ratio of interest-rate sensitive assets & liabilities = Interest-rate sensitive assets / Interest-rate sensitive liabilities (NTD)

The ratio of interest-rate sensitive gap & shareholders' equity = Interest-rate sensitive gap / Shareholders' equity

Interest-Rate Sensitive Analyses of the Bank's Assets & Liabilities (USD)

2012.12.31

Unit : USD Thousand,%

Item	1-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Interest-rate sensitive assets	339,020	37,193	43	91,383	467,639
Interest-rate sensitive liabilities	326,107	118,716	14,775	–	459,598
Interest-rate sensitive gap	12,913	(81,523)	(14,732)	91,383	8,041
Shareholders' equity					17,660
The ratio of interest-rate sensitive assets & liabilities (%)					101.75
The ratio of interest-rate sensitive gap & shareholders' equity (%)					45.53

2011.12.31

Item	1-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Interest-rate sensitive assets	280,239	35,472	543	77,503	393,757
Interest-rate sensitive liabilities	318,915	95,320	12,853	–	427,088
Interest-rate sensitive gap	(38,676)	(59,848)	(12,310)	77,503	(33,331)
Shareholders' equity					(7,519)
The ratio of interest-rate sensitive assets & liabilities (%)					92.20
The ratio of interest-rate sensitive gap & shareholders' equity (%)					(443.29)

Note: The statement shows the aggregate USD amount of the Head office, domestic business units, OBU and abroad business units, excluding contingent assets & liabilities.

The interest-rate sensitive assets & liabilities means for the earning assets and interest liabilities are with the income and / or cost affected by interest rate.

The interest-rate sensitive gap = Interest-rate sensitive assets – Interest-rate sensitive liabilities

The ratio of interest-rate sensitive assets & liabilities = Interest-rate sensitive assets / Interest-rate sensitive liabilities (US\$)

The ratio of interest-rate sensitive gap & shareholders' equity = Interest-rate sensitive gap ÷ Shareholders' equity

E. Profitability:

Unit : %

Item		2012.12.31	2011.12.31
Return on total assets (%)	before income tax	0.19	(0.20)
	after income tax	0.17	(0.20)
Return on equity (%)	before income tax	3.94	(4.30)
	after income tax	3.63	(4.35)
Net profit margin (%)		12.94	(18.69)

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

Return on equity = Income before (after) income tax / Average net equity

Net profit margin = Net income / Net revenue

Income before (after) income tax means for the net income / loss amount accumulated from January of the year to the said quarter.

F. Maturity Analyses of the Bank's Assets & Liabilities
Analyses of the Structure of the Maturity Date (NTD)

2012.12.31

Unit : NT\$ Thousand

Item	Total	Amount of the Residual Period from Maturity Date				
		1-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Main matured cash inflow	203,558,504	57,038,949	18,341,068	16,054,941	28,493,786	83,629,760
Main matured cash outflow	251,031,777	27,033,437	31,852,103	40,350,961	51,944,566	99,850,710
Duration gap	(47,473,273)	30,005,512	(13,511,035)	(24,296,020)	(23,450,780)	(16,220,950)

2011.12.31

Item	Total	Amount of the Residual Period from Maturity Date				
		1-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Main matured cash inflow	207,668,487	57,365,567	22,320,748	11,308,489	30,976,325	85,697,358
Main matured cash outflow	253,810,445	25,307,750	35,136,528	36,033,159	61,340,112	95,992,896
Duration gap	(46,141,958)	32,057,817	(12,815,780)	(24,724,670)	(30,363,787)	(10,295,538)

Note: The statement shows the amount NT\$ of the Head Office, and domestic business units, except foreign currencies.

Analyses of the Structure of the Maturity Date (USD)

2012.12.31

Unit : US\$ Thousand

Item	Total	Amount of the Residual Period from Maturity Date				
		1-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Main matured cash inflow	486,732	37,398	39,789	52,262	16,192	341,091
Main matured cash outflow	539,654	251,777	124,446	70,475	23,167	69,789
Duration gap	(52,922)	(214,379)	(84,657)	(18,213)	(6,975)	271,302

2011.12.31

Item	Total	Amount of the Residual Period from Maturity Date				
		1-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Main matured cash inflow	452,376	74,096	40,955	36,764	5,543	295,018
Main matured cash outflow	457,817	164,420	194,804	25,378	20,425	52,790
Duration gap	(5,441)	(90,324)	(153,849)	11,386	(14,882)	242,228

Note : 1. The statement shows only the amount in USD of the Head Office, domestic business units and OBU.

2. The Bank's offshore assets account for less than 10% of the Bank's total assets.

(3) Capital Adequacy

Unit : NT\$ Thousand, %

Item		Year (Note 2)	2012.12.31	2012.6.30	2011.12.31	
Capital	Tier 1 capital		10,050,285	9,863,971	9,613,939	
	Tier 2 capital		2,225,016	2,139,081	2,879,966	
	Tier 3 capital					
	Capital		12,275,301	12,003,052	12,493,905	
Risk weighted assets	Credit risks	Standardised approach	120,795,078	120,760,495	119,355,404	
		Internal rating based approach (IRB)				
		Asset securitization	594,337	597,578	613,393	
	Operational risks	Basic indicator approach (BIA)	4,605,539	4,119,590	4,047,814	
		Standardised approach / Optional standardized approach				
		Advanced approach				
	Market risks	Standardised approach	3,876,439	2,227,124	3,063,735	
		Internal model approach				
	Risk weighted assets			129,871,393	127,704,787	127,080,346
	Capital adequacy ratio (%)			9.45%	9.40%	9.83%
Tier 1 capital as a percentage of risk weighted assets (%)			7.74%	7.72%	7.57%	
Tier 2 capital as a percentage of risk weighted assets (%)			1.71%	1.68%	2.26%	
Tier 3 capital as a percentage of risk weighted assets (%)						
Common stock's equities as a percentage of total assets (%)			3.20%	3.22%	3.16%	
Leverage ratio (%)			4.53%	4.57%	4.40%	

Note 1 : The self-owned capital and weighted risky assets shall be specified in accordance with the "Regulations Governing the Capital Adequacy Ratio of Banks" and "Statement and Form of Calculation Method of Bank's Self-Owned Capital and Risky Assets".

2 : The end of the year of financial statements must disclose the capital adequacy ratios for the current and the previous financial period. In addition to current and previous periods, semi-annual financial statements must also disclose the capital adequacy ratio as at the end of the previous year.

3 : The aforementioned ratios are calculated as follows :

(1) Capital base = Tier 1 capital + Tier 2 capital + Tier 3 capital

(2) Risk weighted assets = Credit risk weighted assets + (Operational risks + Market risks) Capital appropriation ×12.5

(3) Capital adequacy ratio = Capital base / Risk weighted assets

(4) Tier 1 capital as a percentage of risk assets = Tier 1 capital / Risk weighted assets

(5) Tier 2 capital as a percentage of risk assets = Tier 2 capital / Risk weighted assets

(6) Tier 3 capital as a percentage of risk assets = Tier 3 capital / Risk weighted assets

(7) Common stock's equities as a percentage of total assets = Common stock's equities / Total assets

(8) Leverage ratio = Tier one capital / adjusted average assets (average assets minus tier one capital reductions including "goodwill", "unamortized loss on sale of substandard debts", and other tier one capital deductions defined under "Calculations and templates for banks' eligible capital and risky assets").

(4) Information of Sale of NPL: Please refer to the explanation in Note 11.1-(6).



(5)Balance Sheet of Trust Account and the Property List of the Trust Account are Disclosed as Follows Pursuant to Article 17 of the “Rules Governing the Implementatin of the Trust Business Law”

Balance Sheet of Trust Account

Unit : NT\$ Thousand

Trust Asset	2012.12.31	2011.12.31	Trust Liabilities & Equity	2012.12.31	2011.12.31
Deposits	\$225,446	\$116,172	Borrow of medium and Long-term	\$116,800	\$14,000
Short-term investments			Trust capital	20,206,756	19,085,968
Trust investments	18,729,546	18,721,329	Accumulated income	(155,404)	85
Stock investments	9,487	2,983			
Real estate					
Land	1,083,991	220,581			
Building	19,576	16,327			
Construction in progress	100,106	22,661			
Total Trust Asset	\$20,168,152	\$19,100,053	Total Trust Liabilities & Equity	\$20,168,152	\$19,100,053

Property List of Trust Account

Investments	2012.12.31	2011.12.31
Deposits	\$225,446	\$116,172
Short-term investments		
Trust investments	\$18,729,546	\$18,721,329
Stock investments	9,487	2,983
Sub-total	\$18,739,033	\$18,724,312
Real estate		
Land	\$1,083,991	\$220,581
Buildings	19,576	16,327
Construction in progress	100,106	22,661
Sub-total	\$1,203,673	\$259,569
Total	\$20,168,152	\$19,100,053

Statements of Income on Trust Account

Trust Income	2012.1.1~2012.12.31	2011.1.1~2011.12.31
Trust Revenue		
Interest Income	\$635	\$445
Investment Revenue	210	160
Sub-total	\$845	\$605
Trust expenses		
general expenses	\$6,060	\$2,328
Tax	7,508	14,155
Interest expenses	—	3,242
other expenses	157,192	20,885
Sub-total	\$170,760	\$40,610
Income (loss) before tax	(\$169,915)	(\$40,005)
Income tax expenses	(55)	(44)
Income (loss) after tax	(\$169,970)	(\$40,049)

(6) According to Article 7-1 of Regulations Governing the Preparation of Financial Reports by Securities Firms, the Bank Additionally Disclosed the Balance Sheet and Income Statement of the Bank's Securities Department.

Balance Sheet of Securities Sector

Unit : NT\$ Thousand

Assets	2012.12.31	2011.12.31	Liabilities	2012.12.31	2011.12.31
Financial assets at fair value through income statement	\$74,710	\$76,199	Bills and bonds sold under repurchase agreements	\$68,914	\$103,207
Accounts receivable – net	4,639	5,249	Accounts payables	3,276	3,196
Available-for-sale financial assets – net	801,871	470,865			
Property and equipment cost – net	52	64	Total liabilities	\$72,190	\$106,403
Other assets	9,132	374,604	Stockholders' equity		
			Working capital	\$800,000	\$800,000
			Retained earnings	13,428	15,977
			Other stockholders' equity	4,786	4,601
			Total stockholders' equity	\$818,214	\$820,578
Total assets	\$890,404	\$926,981	Total liabilities & stockholders' equity	\$890,404	\$926,981

Statements of Income of Securities Sector

Unit : NT\$ Thousand

Item	2012.1.1~2012.12.31	2011.1.1~2011.12.31
Interest income	\$10,017	\$8,998
Interest expense	(466)	(615)
Net interest revenue	\$9,551	\$8,383
Net non-interest revenue		
Net commission & service fees	\$8,047	\$7,078
Gain (loss) in financial assets and liabilities at fair value through income statement	(1,359)	(1,251)
Gain (loss) on available-for-sale financial assets	163	2,935
Other net non-interest revenue (loss)	3,143	4,635
Net revenue	\$19,545	\$21,780
Operating expenses		
Personnel service expenses	(\$2,801)	(\$2,566)
Depreciation & amortization	(13)	(7)
Other operating & administrative expenses	(308)	(302)
Income (loss) before tax	\$16,423	\$18,905
Income tax (expenses) benefit	(2,995)	(2,928)
Net income (loss)	\$13,428	\$15,977

(7) The Information about Financial Assets and Liabilities Denominated in Foreign Currency Which Might Arouse Material Effect:

Unit : Thousand

Item	2012.12.31			2011.12.31		
	Original Currency	Exchange Rate	NT\$	Original Currency	Exchange Rate	NT\$
Financial Assets						
Monetary Item						
USD	116,437	29.035	3,380,748	120,704	30.28	3,654,917
GBP	757	46.62	35,291	3,050	46.48	141,764
HKD	41,199	3.716	153,095	10,352	3.867	40,031
AUD	33,357	30.04	1,002,044	39,091	30.66	1,198,530
SGD	111	23.67	2,627	47	23.21	1,091
CHF	268	31.72	8,501	257	32.10	8,250
CAD	7,599	29.12	221,283	13,424	29.58	397,082
JPY	300,683	0.3343	100,518	461,926	0.3885	179,458
CNY	5,331	4.64	24,736	5,303	4.79	25,401
ZAR	177,032	3.374	597,306	115,787	3.656	423,317
SEK	812	4.42	3,589	2	4.35	9
EUR	6,607	38.24	252,652	19,551	39.00	762,489
NZD	50,109	23.77	1,191,091	48,707	23.31	1,135,360
Financial Liabilities						
Monetary Item						
USD	265,688	29.035	7,714,251	248,384	30.28	7,521,068
HKD	190,000	3.716	706,040	—	3.867	—
AUD	23,250	30.04	698,430	29,300	30.66	898,338
CAD	5,500	29.12	160,160	11,000	29.58	325,380
JPY	771,562	0.3343	257,933	216,676	0.3885	84,179
EUR	1,046	38.24	39,999	12,648	39.00	493,272
NZD	43,500	23.77	1,033,995	26,000	23.31	606,060
GBP	—	46.62	—	52	46.48	2,417
ZAR	2,973	3.374	10,031	4,073	3.656	14,891

(8) The Account Titles are subject to Reclassification.

For matching with the presentation of the financial statement of 2012, the account titles used in financial reporting in 2011 are subject to reclassification.

11. SUPPLEMENTARY DISCLOSURE

11.1 Related Information on Significant Transactions

- (1) Cumulative balance of transfer investments stocks purchased or sold greater than NT\$ 300 million or 10% of paid-in capital : None.
- (2) Acquisition of fixed asset greater than NT\$ 300 million or 10% of paid-in capital : None.
- (3) Disposal of fixed assets greater than NT\$ 300 million or 10% of paid-in capital : None.
- (4) The handling commission for the trade with the related parties are equivalent to an amount over NT\$ 5 million:None.
- (5) Receivables from related parties greater than NT\$ 300 million or 10% of paid-in capital : Appendix 1.
- (6) The information for sale of non-performing loans : Appendix 2.
- (7) Information on disposal of securitization products under "Financial Assets Securitization Provision" or "Real Estate Securitization Provision" : None.
- (8) Other significant trades that may affect the decision-maker who use the financial statements : None.

11.2 Information on Investee Companies:

- (1) Information on investee companies and consolidated shareholdings : Appendix 3.
- (2) Lending funds to other parties : None.
- (3) Endorsement and guarantee for other parties : None.
- (4) Securities held by investee companies on Dec. 31, 2010 : None.
- (5) Cumulative trading volume of the identical securities greater than NT\$ 300 million or 10% of paid-in capital : None.
- (6) Derivative products trading of investee company : None.
- (7) Acquisition of fixed asset greater than NT\$ 300 million or 10% of paid-in capital : None.
- (8) Disposal of fixed assets greater than NT\$ 300 million or 10% of paid-in capital : None.
- (9) The handling commission for the trade with the related parties are equivalent to an amount over NT\$ 5 million : None.
- (10) Receivables from related parties greater than NT\$ 300 million or 10% of paid-in capital : None.
- (11) The information for sale of non-performing loans : None.
- (12) Information on disposal of securitization products under "Financial Assets Securitization Provision" or "Real Estate Securitization Provision" : None.
- (13) Other significant trades that may affect the decision-maker who use the financial statements : None.

11.3 Investments in Mainland China: None.

Appendix I

Bank of Kaohsiung Co., Ltd.
Receivables from Related Parties
December 31, 2012

Unit : NT\$ Thousand

Creditor	Debtor	Relationship of the Debtor with the Bank	Balance of Receivables from Related parties	Turnover Rate	Overdue Receivables from Related Parties		Amount of Receivables Collected from Related Parties Subsequent to the Event	Provision for Credit Loss
					Amount	Handing Procedure		
Bank of Kaohsiung Co., Ltd.	Kaohsiung City Government	Major shareholder of the bank	40,639,868	Not applicable	None	Not applicable	NT\$ 1,599,483 thousand have been collected up to Mar. 28, 2013. The remaining balance has not matured yet.	—

Appendix II

Bank of Kaohsiung Co., Ltd.
The information for sale of non-performing loans
Dec. 31, 2012

Unit : NT\$ Thousand

(1) Summaries :

Date	Debtor	Composition of receivables (Note 1)	Book Value (Note 2)	Sale Price	Disposal (loss) gain	additional agreed-upon conditions (Note 3)	Relationship of the Debtor with the Bank (Note 4)
2012.5.15	Mega Asset Management Corporation	Loan receivables from a syndicated loan venture	160,222	199,870	39,648	None	None

Note:

1. Composition of receivables, please state clearly the type of receivables, such as credit card, cash cards (loans without collaterals), mortgage loans, account receivables, etc.
 2. Book value is remaining balance of the \$213,937 thousand of the receivables sold less the \$ 49,670 thousand of the bad debt already recognized and the \$4,045 thousand of bad debt allowance.
 3. If there are additional agreed-upon conditions, they should be disclosed. For example, profit sharing, sold under repurchase agreements, or purchased under resale agreements conditions.
 4. As for the relationship, please supply the information on the type of related parties as required by SFAS No. 6. If the related party is a related party in fact, the criteria for determining the relationship should be clearly stated.
- (2) Each batch of delinquent loan sold for more than NT\$ 1 billion (not including that which is sold to related parties) should be individually disclosed: not reached the disclosure threshold yet.



Appendix III

Bank of Kaohsiung Co., Ltd.
Information on Investee Companies
December 31, 2012

Unit : thousand shares ; NT\$ Thousand

Name of Investee Company	Location	Main Business	Shares Held by the Bank at Dec. 31, 2010	Book Value	The Income (Loss) Recognized in this Period (Note3)	Consolidated Shareholdings of the Bank and Affiliates (Note 1)			Note
						Number of Shares	The Shares to be Held (Note 2)	Total Number of Shares	
Finance									
Kaohsiung Bank Insurance Agency Co., Ltd.	Kaohsiung	Life Insurance Agency	100%	71,448	48,254	300	—	300	Equity method's investments
Kaohsiung Bank General Insurance Agency Co., Ltd.	Kaohsiung	Non-life Insurance Agency	100%	7,614	1,554	500	—	500	Equity method's investments
Taipei Forex Inc.	Taipei	Forex	3.53%	7,000	2,240	700	—	700	Financial assets – cost method
Taiwan Futures Exchange Corporation	Taipei	Futures Exchange	0.30%	6,000	1,834	836	—	836	Financial assets – cost method
Taiwan Financial Asset Services Co., Ltd.	Taipei	Financial Services	2.94%	50,000	500	5,000	—	5,000	Financial assets – cost method
Taiwan Depository & Clearing Corporation	Taipei	Depository & Clearing	0.08%	4,639	390	266	—	266	Financial assets – cost method
Sunny Asset Management Corporation	Taipei	Asset Management	0.0058%	3	1	0.347	—	0.347	Financial assets – cost method
Taiwan Finance Corporation	Taipei	Finance	10.00%	516,165	9,291	51,617	—	51,617	Financial assets – cost method
Waterland Securities Co., Ltd.	Taipei	Securities	4.93%	407,830	—	42,899	—	42,899	Financial assets – cost method
Taiwan Asset Management Corporation	Taipei	Asset Management	0.57%	100,000	7,594	10,000	—	10,000	Financial assets – cost method
Financial Information Services Co., Ltd.	Taipei City	Information Services	1.14%	45,500	13,309	5,119	—	5,119	Financial assets – cost method
Non-Finance									
Taiwan High Speed Rail Corp.	Taipei	communication	0.10%	100,440	—	10,800	—	10,800	Financial assets – cost method
Kaohsiung Rapid Transit Corporation	Kaohsiung	Rapid Transit	0.50%	50,000	(25,000)	5,000	—	5,000	Financial assets – cost method

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

Note 2: (1) The shares to be held shall mean the shares acquired upon conversion, as hypothesized, of equity securities purchased or contracted for derivative products concluded (not yet converted to equity) in accordance with the trading terms and conditions and the bank's intent to link with the reinvested enterprise's equity for the purpose of reinvestment provided in Article 74 of the Act.

(2) The "equity securities" referred to in the preceding paragraph shall mean the valuable securities referred to in Paragraph 1 of Article 11 of the Securities and Exchange Law Enforcement Rules, e.g. convertible corporate bond and warrant.

(3) The "derivative products" referred to in the preceding paragraph shall comply with the definition of derivative products referred to in Statement of Financial Accounting Standards No. 34, e.g. stock option.

Note 3: Return (loss) on equity investment under the equity method of valuation to be recognized in current period shall be based on the equity method. Return (loss) on investment in financial assets on the basis of cost to be recognized in current period is based on dividend income. Impairment amounting to NT\$25 million has been recognized on Kaohsiung Mass Rapid Transit Corporation.

12. INFORMATION BY OPERATION DEPARTMENT

The Company has disclosed such information in its consolidated financial statements. Therefore, no such information will be disclosed in individual financial statements separately.

13. ADVANCE DISCLOSURE OF THE ISSUES RELATED TO THE INTRODUCTION OF IFRS IN ACCOUNTING.

Advance disclosure of the issues related to the introduction of IFRS is based on the requirements of Financial Supervisory Commission of Executive Yuan under Letter Chin-Kuan-Cheng-Shen-Tzi No. 0990004943 dated Feb. 2, 2010. Disclosure has also been made in the consolidated financial statements.



6.5 Audited Consolidated Financial Statements for FY 2012
6.5.1 Consolidated Balance Sheets

BANK OF KAOHSIUNG CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 and 2011

Unit : NT\$ Thousand

A/C No	ASSETS Account	Note	2012.12.31		Comparison (%)	LIABILITIES & STOCKHOLDERS' EQUITY Account		Comparison (%)	2011.12.31		Comparison (%)
			Amount	A/C No		Amount	A/C No		Amount	Amount	
11000	Cash & cash equivalents	4.1	\$ 3,166,781	21000	11.50	Due to CBC & banks	21000	\$ 11,935,679	\$ 11,511,596	3.68	
11500	Due from CBC and lend to banks	4.2	24,635,414	22000	2.08	Financial liabilities at fair value through income statement	22000	613	3,837	(84.02)	
12000	Financial assets at fair value through income statement	4.3	1,459,442	22500	(9.68)	Bills and bonds sold under repurchased agreements	22500	68,914	103,207	(33.23)	
12500	Bill and bonds purchased under resale agreements		4,967,234	23000	(15.50)	Accounts payables	23000	3,964,298	3,386,690	17.06	
13000	Accounts receivable — net	4.4	961,619	23500	(0.95)	Deposits & remittances	23500	189,455,479	193,866,022	(2.28)	
13500	Discounts & loans — net	4.5	162,044,345	24000	(2.51)	Financial bonds payable	24000	4,000,000	4,000,000	—	
14000	Available-for-sale financial assets — net	4.6	19,137,095	25000	62.89	Pension payable	25000	353,864	304,726	16.13	
14500	Held-to-maturity financial assets	4.7	—	25500	(100.00)	Other financial liabilities	25500	152,116	195,150	(22.05)	
15500	Other financial assets — net	4.8	1,724,348	29500	(5.82)	Other liabilities	29500	195,689	103,424	89.21	
				20000		Total liabilities	20000	\$ 210,126,652	\$ 213,474,652	(1.57)	
	Property and equipment cost					Stockholders' equity					
18501	Land		\$ 1,224,286	31001	(0.57)	Capital	31001	\$ 7,069,476	\$ 7,069,476	—	
18521	Buildings		1,218,188	31500	(1.69)	Capital surplus	31500	2,017,724	2,017,724	—	
18531	Machinery & equipment		621,583		(0.16)	Retained earnings					
18541	Transportation equipment		24,558	32001	7.55	Legal reserve	32001	\$ 1,277,895	\$ 1,642,841	(22.21)	
18551	Miscellaneous equipment		92,562	32003	(3.06)	Special reserve	32003	—	41,937	(100.00)	
18561	Leasehold improvement		232,563	32011	—	Unappropriate retained earnings	32011	386,202	(406,883)	(361.58)	
185x1	Total cost		\$ 3,413,740	32000	(0.88)	Total retained earnings	32000	\$ 1,664,097	\$ 1,277,895	30.22	
185x4	Less : accumulated depreciation		(1,278,054)		2.95	Other stockholders' equity					
18571	Unfinished construction and ordered spare parts		—	32523	(100.00)	On unrealized income on available-for-sale financial assets	32523	\$ 154,401	(\$ 2,384)	6,576.55	
18500	Property and equipment cost — net	4.9	\$ 2,135,686	32599	(3.04)	Other adjustment on stockholder's equity	32599	487	521	(6.53)	
19000	Intangible assets — net		\$ 50,237	32500	(19.70)	Total other stockholders' equity	32500	\$ 154,888	(\$ 1,863)	8,413.90	
19500	Other assets — net	4.10	750,636	38000	(2.68)	Total of holding company stockholders' equity	38000	\$ 10,906,185	\$ 10,363,232	5.24	
10000	Total assets		\$ 221,032,837		(1.25)	Total liabilities & stockholders' equity		\$ 221,032,837	\$ 223,837,884	(1.25)	

The accompanying notes are an integral part of these financial statements.)

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu

6.5.2 Consolidated Income Statements

BANK OF KAOHSIUNG CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

Unit : NT\$ Thousand

A/C No	Item	Note	2012.1.1-2012.12.31	2011.1.1-2011.12.31	Comparison (%)
41000	Interest income		\$3,999,032	\$3,750,650	6.62
51000	Interest expense		(1,895,489)	(1,762,138)	7.57
	Net interest revenue		\$2,103,5432	\$1,988,512	5.78
	Net non-interest revenue				
49100	Net commission & service fees	4.20	\$426,171	\$409,314	4.12
49200	Gain (loss) in financial assets and liabilities at fair value through income statement	4.3	(12,711)	118,705	(110.71)
49300	Gain (loss) on available-for-sale financial assets		135,974	2,291	5,835.14
49400	Realized (loss) profit from financial assets held to maturity	4.7	264	80,275	(99.67)
49600	Gain (loss) on foreign exchange		75,309	(105,552)	171.35
49700	Gain (loss) on assets impairment	4.8	(95,029)	(418,200)	(77.28)
48095	Recovery of credit loss and overdue loan.		319,474	216,041	47.88
49800	Other net non-interest revenue (loss)		52,388	40,140	30.51
4xxxx	Net revenue		\$3,005,383	\$2,331,526	28.90
51500	Credit loss expenses		(\$579,363)	(898,790)	(35.54)
	Operating expenses				
58500	Personnel service expenses	4.21	(\$1,355,262)	(\$1,247,886)	8.60
59000	Depreciation & amortization	4.21	(76,107)	(83,432)	(8.78)
59500	Other operating & administrative expenses		(565,299)	(522,438)	8.20
61001	Income (loss) before tax		\$429,352	(\$421,020)	201.98
61003	Income tax (expenses) benefit		(43,150)	(12,323)	250.16
69600	Consolidated total profit (loss)	4.22	\$386,202	(\$433,343)	189.12
69600	Consolidated total profit (loss) belong to :				
69601	Shareholder of holding company		\$386,202	(\$433,343)	189.12
69603	Minor equity		—	—	
	Consolidated net profit (loss)		\$386,202	(\$433,343)	189.12
69500	Consolidated basic earnings per share (NT\$)		After tax	After tax	
	Shareholder of holding company	4.23	\$0.55	(\$0.71)	177.46
	Minor equity				
	Consolidated net profit (loss)	4.23	\$0.55	(\$0.71)	177.46

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu



6.5.3 Consolidated Statements of Changes in Stockholders' Equity

BANK OF KAOHSIUNG CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

Unit : NT\$ Thousand

Item	Common Stock	Capital Surplus	Retained Earnings			Adjustments on Equity			Sum
			Legal Reserve	Special Reserve	Unappropriated Earnings	Sum	Unrealized income on financial products	Other	
Balance, January 1, 2011	\$ 5,257,982	\$ 2,542,403	\$ 1,604,713	\$ 25,034	\$ 155,551	\$ 1,785,298	(\$ 25,787)	(\$ 824)	\$ 9,559,072
Capital increase by capital reserve	525,798	(525,798)	—	—	—	—	—	—	—
Employees' stock bonus	6,826	1,119	—	—	—	—	—	—	7,945
Consolidated total profit (loss)	—	—	—	—	(433,343)	(433,343)	—	—	(433,343)
Appropriation & distribution of earnings (Note1)	—	—	—	—	—	—	—	—	—
Legal reserve	—	—	38,128	—	(38,128)	—	—	—	—
Special reserve	—	—	—	1,577	(1,577)	—	—	—	—
Cash dividend	—	—	—	—	(10,516)	(10,516)	—	—	(10,516)
Capital increase by earnings	78,870	—	—	—	(78,870)	(78,870)	—	—	—
Capital increase by cash	1,200,000	—	—	—	—	—	—	—	\$ 1,200,000
Increase (Decrease) on unrealized income on available-for-sale financial assets	—	—	—	—	—	—	23,403	—	23,403
Other(Sub Note 4.16)	—	—	—	15,326	—	15,326	—	1,345	16,671
Total on change	\$ 1,811,494	(\$ 524,679)	\$ 38,128	\$ 16,903	(\$ 562,434)	(\$ 507,403)	\$ 23,403	\$ 1,345	\$ 804,160
Balance, Dec. 31, 2011	\$ 7,069,476	\$ 2,017,724	\$ 1,642,841	\$ 41,937	(\$ 406,883)	\$ 1,277,895	(\$ 2,384)	\$ 521	\$ 10,363,232
Consolidated total profit (loss)	—	—	—	—	386,202	386,202	—	—	386,202
Appropriation & distribution of earnings (Note2)	—	—	—	—	—	—	—	—	—
Legal reserve be used to offset a deficit	—	—	(364,946)	—	364,946	—	—	—	—
Special reserve be used to offset a deficit	—	—	—	(41,937)	41,937	—	—	—	—
Increase (Decrease) on unrealized income on available-for-sale financial assets	—	—	—	—	—	—	156,785	—	156,785
Other	—	—	—	—	—	—	—	(34)	(34)
Total on change	\$ —	\$ —	(\$ 364,946)	(\$ 41,937)	\$ 793,085	\$ 386,202	\$ 156,785	(\$ 34)	\$ 542,953
Balance, Dec. 31, 2012	\$ 7,069,476	\$ 2,017,724	\$ 1,277,895	\$ —	\$ 386,202	\$ 1,664,097	\$ 154,401	\$ 487	\$ 10,906,185

Note1 : The amount of Directors & supervisors' remunerations and Employees' bonus were \$2,000 thousand and \$8,000 thousand respectively.

Note2 : The amount of Both Directors & supervisors' remunerations and Employees' bonus were zero.

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu

6.5.4 Consolidated Statements of Cash Flows

BANK OF KAOHSIUNG CO., LTD. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

Unit : NT\$ Thousand

Item	2012.1.1-2012.12.31	2011.1.1-2011.12.31
Cash flows from operating activities		
Consolidated total profit (loss)	\$386,202	(\$433,343)
Adjustments		
Depreciation	60,703	67,870
Amortization	15,404	15,562
Provision for credit loss (change over to revenue)	579,363	898,790
Financial assets premium (discount) amortization	10,302	(7,761)
Loss (gain) on sale and discard of property and equipment	(11,483)	153
Loss (gain) on sale investments	(116,997)	(74,899)
Loss (gain) on unrealized evaluation of financial assets and liabilities	(3,536)	1,088
Loss on Financial assets impairment	95,029	418,200
Total on adjustments	\$628,785	\$1,319,003
Net changed of Operating assets and liabilities		
Net changed of Operating assets		
Decrease (increase) on financial assets for trading purposes	\$140,472	(\$523,801)
Decrease (increase) in accounts receivable	(19,740)	(5,785)
Decrease(increase)on deferred income tax assets	19,288	(8,099)
Total on changed of Operating assets	\$140,020	(\$537,685)
Net changed of Operating liabilities:		
Increase (decrease) in accounts payable	\$575,699	\$560,076
Increase (decrease) in tax payable	1,909	438
Increase(decrease)on accrued pension debt	49,138	51,526
Total on changed of Operating liabilities	\$626,746	\$612,040
Total on changed of Operating assets and liabilities	\$766,766	\$74,355
Net cash provided by / (used in) operating activities	\$1,781,753	\$960,015
Cash flows from investing activities		
Acquisition of Available-for-sale financial assets	(\$46,079,702)	(\$22,678,301)
Proceeds from sale of Available-for-sale financial assets	44,593,555	16,029,754
Proceeds from the disposal of investments in bonds without an active market	20,837	—
Due repays principal of bond products investment without market price	—	790,425
Acquisition of Held-to-Maturity financial assets	(913,787)	(744,568)
Proceeds from sale of Held-to-Maturity financial assets	107,632	1,704,575
Repayment of principal upon maturity of held-to-maturity financial assets	749,786	1,268,480
Acquisition of property and equipment	(13,677)	(33,940)
Proceeds from sale of property and equipment	31,347	121
Increase on deferred expenses	(168)	(6,430)
Acquisition in intangible assets	(764)	(16,952)
Decrease(increase)in due from CBC and lend to banks	(500,932)	2,739,064
Decrease(increase) in discounts & loans	3,627,114	(4,925,768)
Decrease (increase) on bills and bonds purchased under resale agreements	911,107	(3,087,278)
Decrease(increase) in other financial assets	(772)	7,761
Decrease(increase) in other assets	(1,037)	(11,532)
Net cash provided by / (used in) investing activities	\$2,530,539	(\$8,964,589)
Cash from financial activities		
Increase (decrease) on bills and bonds sold under repurchase agreements	(\$34,293)	(\$37,538)
Increase (decrease) in other financial liabilities	(43,034)	(12,139)
Increase (decrease) in other liabilities	78,174	8,298
Distribute a cash dividend	—	(10,516)
Capital increase by cash	—	1,200,000
Increase (decrease) in due to CBC & banks	424,083	(1,093,883)
Increase (decrease) in deposits & remittances	(4,410,543)	8,774,510
Net cash (used in) / provided by financial activities	(\$3,985,613)	\$8,828,732
Net increase (Decrease) in cash & cash equivalents	\$326,679	\$824,158
Balance of cash & cash equivalents at the beginning of year	2,840,102	2,015,944
Balance of cash & cash equivalents at the end of year	\$3,166,781	\$2,840,102
Supplementary disclosures of cash flow information :		
Interest paid during the period excluding interest capitalized	\$1,912,229	\$1,700,360
Income tax paid	\$39,428	\$30,857
Loss (gain) on unrealized evaluation of financial products	(\$156,785)	(\$23,403)
Held-to-maturity financial assets reclassified as available-for-sale financial assets	\$5,631,013	—

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu

6.6 Financial Difficulties that Occurred to the Bank of Kaohsiung and the Related Parties for FY 2012 & up to Mar. 2013: None.



7.1 Analysis of Financial Status

Unit : NT\$ Million

Item	Year		Difference	
	2012.12.31	2011.12.31	Amount	%
Assets				
Cash & cash equivalents, Due from CBC and lent to banks	27,802	26,975	827	(Note 1) 3.07
Financial assets at fair value through income statement	1,460	1,616	(156)	(9.65)
Bills and bonds purchased under resale agreements	4,967	5,878	(911)	(Note 2) (15.50)
Available-for-sale financial assets – net	19,137	11,748	7,389	(Note 3) 62.90
Discounts & loans – net	162,044	166,216	(4,172)	(Note 4) (2.51)
Accounts receivable – net	974	981	(7)	(0.71)
Held-to-Maturity financial assets – net	0	5,567	(5,567)	(Note 5) (100.00)
Equity method's investments – net	79	63	16	25.40
Property and equipment cost	2,135	2,202	(67)	(3.04)
Intangible assets – net	50	63	(13)	(20.63)
Other financial assets – net	1,724	1,831	(107)	(5.84)
Other assets – net	749	769	(20)	(2.60)
Total Assets	221,121	223,909	(2,788)	(1.25)
Liabilities				
Due to CBC & banks	11,936	11,512	424	(Note 6) 3.68
Deposits & remittances	189,552	193,944	(4,392)	(Note 7) (2.26)
Financial liabilities at fair value through income statement	1	4	(3)	(75.00)
Bills and bonds sold under repurchase agreements	69	103	(34)	(33.01)
Financial bonds payable	4,000	4,000	0	0.00
Liabilities of preferred stocks	0	0	0	0.00
Pension payable	354	305	49	16.07
Other financial liabilities	152	195	(43)	(22.05)
Other liabilities	4,151	3,482	669	(Note 8) 19.21
Total Liabilities	210,215	213,545	(3,330)	(1.56)
Stockholders' Equity				
Capital	7,069	7,069	0	–
Capital reserve	2,018	2,018	0	–
Retained earnings	1,664	1,278	386	(Note 9) 30.20
Unrealized gain and loss on financial instruments	154	(2)	156	7,800.00
Cumulative translation adjustment	0	0	0	–
Other stockholder's equity adjustment	1	1	0	–
Total Stockholders' Equity	10,906	10,364	542	5.23

Note: Major reasons for change in assets, liabilities, and stockholders' equity during the past two years :

1. Caused by increase of C.D. due from CBC.
2. Caused by decrease of bills and bonds under resale agreement.
3. Caused by increase of available-for-sale CBC negotiable certificate of deposit, government's bonds and foreign bonds.
4. Caused by decrease of short-term loans.
5. Caused by decrease of held-to-maturity government's bonds and foreign bonds.
6. Caused by increase of Inter-bank borrowing and lending.
7. Caused by decrease of certificate of deposit.
8. Caused by increase of Checks for clearance.
9. Caused by the earn profits in 2012.

7.2 Analysis of Financial Results

Unit : NT\$ Million

Item	Year	2012.1.1- 2012.12.31	2011.1.1- 2011.12.31	Difference	
				Amount	%
Net interest revenue		2,103	1,988	115	5.78
Net non-interest revenue		881	330	551	(Note 1) 166.97
Credit loss expenses		579	899	(320)	(Note 2) (35.60)
Operating expenses		1,986	1,848	138	7.47
Income before tax – operating department		419	(429)	848	(Note 3) 197.67
Income after tax – operating department		386	(433)	819	(Note 4) 189.15
Non-operating department income – after income tax		0	0	0	–
Special income – after income tax		0	0	0	–
Cumulative effect of changes on accounting principles – after income tax		0	0	0	–
Net income		386	(433)	819	(Note 4) 189.15

- Note : 1. Caused by increase of Recovery of credit loss and decrease of impairment loss in foreign currency investments.
 2. Caused by in compliance with SFAS No. 34, the Bank to adjust modes of evaluation of credit loss expenses in 2011.
 3. Caused by decrease of credit loss expenses from loans and decrease of impairment loss in foreign currency investments.
 4. Caused by decrease of credit loss expenses from loans and decrease of impairment loss in foreign currency investments.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Past Two Years

Unit : %

Item	Year	2011	2010	Comparison %
Cash flow ratio (%)		11.04	6.37	4.67
Cash flow adequacy ratio (%)		3,892.46	1,407.94	2,484.52
Cash flow satisfied ratio (%)		(Note 3)	10.66	–

- Note : 1. Increase of cash flow ratio was caused by the increase of net profit in 2012, The in this year caused a net cash inflow from operating activities more than 2011.
 2. Increase of cash flow adequacy ratio was caused by decrease of capital expenditure and cash dividends for past five years.
 3. Cash flow satisfied ratio was not counted for FY 2012, cause by net cash inflows from investing activities.

7.3.2 Cash Flow Analysis for the Coming Year

Unit : NT\$ Million

Estimated Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash Flow (Used) by Operating Activities (2)	Estimated Cash Outflow (3)	Cash Surplus (Deficit) (1) + (2) - (3)	Leverage of Cash Deficit	
				Investment Plans	Financing Plans
3,167	375	232	3,310	–	–

- Note : 1. Analyses on change of cash flow in the current year:
 (1) Operating activities: due to decrease in adjustment on accounts payable.
 (2) Cash outflow: due to increase in discounts and loans.
 2. Correction action for deficit in cash and liquidity analyses:
 (1) Investing plans: none.
 (2) Financing plans: none.

7.4 The Impact of Major Capital Expenditures on Financial Operations in FY 2012

7.4.1 Utilization of Capital Expenditure and Source of Funds

Unit : NT\$ Million

Capital Expenditure Project	Source of Fund	Projected Completion Date	Fund Needed	Utilization of Fund
The project of building consolidation platform for Front office operation.	Earnings support	2014..3.26	120	1. NT\$6 million has been paid in 2012. 2. It is estimated to pay NT\$60 million in Nov. 2013. 3. It is estimated to pay NT\$48 million in March. 2014. 4. It is estimated to pay NT\$6 million in March. 2015.



7.4.2 Estimated potential effects:

“Project for the Installation of the Integrated of Bank Teller Operation Platform” upgrades the system functions of the Bank’s branch terminals. It improves teller operation security, control, effectiveness, and efficiency of customer service. It also helps the promotion of the Bank’s various services and our competitiveness.

7.5 Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plan for the Coming Year

7.5.1 The Transfer Investment Policy in FY 2012, and Investment Plan for the Coming Year

The Bank will continuously observe and understand the development trend of the market in accordance with active and stable investment policies, and proceed with trans-investment insofar as it is permitted by law upon appraisal of the cost and benefit subject to the needs for the development of the Bank’s business and the whole industry.

7.5.2 The Gain on the Transfer Investment in the Last Two Years

Unit : NT\$ Million

FY	Amount	Source
2012	85	Recognized earnings and cash Dividends
2011	70	Recognized earnings and cash Dividends

7.5.3 The Loss on the Transfer Investment in the Last Two Years

Unit : NT\$ Million

FY	Amount	Source
2012	25	Asset impairment is recognized for Kaohsiung Rapid Transit Corporation of investee.
2011	0	None.

7.6 The Evaluation of Risk Management

7.6.1 Qualitative and Quantitative Information of the Various Risks

1. Credit Risks Management System and Capital Charge

- (1) Credit risks management system , please refer to page 125-128 for “This Bank’s risk management systems are outlined B”.
- (2) Exposure and Capital Charge after Risk Mitigation under the Credit Risk Standard Approach

Unit : NT\$ Million at 2013.3.31

Item	Exposure after Risk Mitigation	Capital Charge
Sovereign country	30,891	0
Non government – Public departments	46,510	972
Banks (including multi-development banks)	2,082	103
Enterprise (including securities and insurance)	62,001	4,866
Retail exposure	42,707	2,456
Real estate for residential	26,604	1,259
Equity securities investments	86	28
Other assets	5,607	249
Total	216,489	9,934

2. Asset Securitization Risk Management System, Exposure and Capital Charge :

- (1) Securitization risk management system, please refer to page 133 for “This Bank’s risk management systems are outlined E”.
- (2) Securitization : None.
- (3) Exposure and capital charge after securitization risk by type of trading:

Exposure and Capital Charge after Securitization Risk by Type of Trading:

Unit: NT\$ Thound at 2013.3.31

Type of Risk Exposure	Type of books	The role of bank	Type of Assets	Traditional				combo		Total		
				Amount of Risk Exposure		Capital Charge (2)	Amount of Risk Exposure	Capital Charge (4)	Amount of Risk Exposure (5)=(1)+(3)	Capital Charge (6)=(2)+(4)	Capital Charge before Securitization Risk	
Reserve or purchase	Liquidity financing facility is provided	Provide credit enhancement.	Subtotal (1)	Reserve or purchase (3)								
Banking	Non-originator bank		Collateralized Debt Obligation (CDO)	91,040	0	0	91,040	0	0	91,040		
			Collateralized Loan Obligation (CLO)	290,213	0	0	290,213	0	0	290,213	46,340	
			Structured Investment Vehicle (SIV)	48,503	0	0	48,503	0	0	48,503	48,503	
Trading												
Subtotal				429,756	0	0	429,756	0	0	429,756	185,883	
Banking	Originator bank											
Trading												
Subtotal												
Total				429,756	0	0	429,756	0	0	429,756	185,883	



(4) Information on securitized products

A. Summarization of information about investment in securitization products

Unit: NT\$ Thound at 2013.3.31

Item	Account	Original Cost	Accumulated Value Income	Accumulated Impairment	Book Value
Collateralized Debt Obligation (CDO)	Bond investment without market price	119,867	0	27,827	91,010
Collateralized Loan Obligation (CLO)		290,213	0	0	290,213
Structured Investment Vehicle (SIV)		160,479	0	111,976	48,503

Note: Original Cost means the cost after discount/premium amortization (including exchange rate effect), not the original purchasing cost.

B. (A) Information about initial cost of single transaction for investment in securitization products amounting to more than NT\$300 million: None.

(B) Information pertaining to: the position held by the bank, which serves as an initiating organization of securitization, for the purpose of credit rating enhancement: None.

(C) Information pertaining to: The bank acting in the process of securitization as a buyer of assets with impaired credit or purchasing institution in a liquidation process: None.

C. Information on: The bank acting as a guaranteeing institution for securitized products or the balance of liquidity loan provided by the bank: None.

3. Operational Risks Management System and Capital Charge

(1) Operational risks management system, please refer to page 128-130 for " This Bank's risk management systems are outlined C".

(2) Operational Risks Capital Charge

Unit : NT\$ Million

FY	Gross Income	Capital Charge
2012	2,607	130
2011	2,431	122
2010	2,331	116
Total	7,369	368

4. Market Risks Management System and Capital Charge

(1) Market risks management system, Please refer to page 131-132 for " This Bank's risk management systems are outlined D".

(2) Market risk capital charge

Unit : NT\$ Million at 2013.3.31

Item	Capital Charge
Interest rate risks	292
Equity exposure risks	29
Foreign exchange risks	26
Product risks	0
Total	347

5. Liquidity Risks

(1) Maturity analysis of assets and liabilities :

A. Analyses of the Structure of the Maturity Date (NT\$) as follows:

2012.12.31

Unit: NT\$ Thound

Item	Total	Amount of the Residual Period from Maturity Date					
		0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Main matured cash inflow	203,558,504	36,329,123	20,709,826	18,341,068	16,054,941	28,493,786	83,629,760
Main matured cash outflow	251,031,777	11,796,187	15,237,250	31,852,103	40,350,961	51,944,566	99,850,710
Duration gap	(47,473,273)	24,532,936	5,472,576	(13,511,035)	(24,296,020)	(23,450,780)	(16,220,950)

2011.12.31

Item	Total	Amount of the Residual Period from Maturity Date					
		0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Main matured cash inflow	207,668,487	39,270,845	18,094,722	22,320,748	11,308,489	30,976,325	85,697,358
Main matured cash outflow	253,810,445	9,079,211	16,228,539	35,136,528	36,033,159	61,340,112	95,992,896
Duration gap	(46,141,958)	30,191,634	1,866,183	(12,815,780)	(24,724,670)	(30,363,787)	(10,295,538)

Note: The statement shows the amount NT\$ of whole the Bank.

B Analyses of the Structure of the Maturity Date (US\$) as follows:

Analyses of the Structure of the Maturity Date (US\$)

2012.12.31

Unit : US\$ Thousand

Item	Total	Amount of the Residual Period from Maturity Date				
		0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Main matured cash inflow	486,732	37,398	39,789	52,262	16,192	341,091
Main matured cash outflow	539,654	251,777	124,446	70,475	23,167	69,789
Duration gap	(52,922)	(214,379)	(84,657)	(18,213)	(6,975)	271,302

2011.12.31

Unit : US\$ Thousand

Item	Total	Amount of the Residual Period from Maturity Date				
		0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Main matured cash inflow	452,376	74,096	40,955	36,764	5,543	295,018
Main matured cash outflow	457,817	164,420	194,804	25,378	20,425	52,790
Duration gap	(5,441)	(90,324)	(153,849)	11,386	(14,882)	242,228

Note : 1. The statement shows the amount US\$ of whole the Bank.

2. The Bank's offshore assets account for less than 10% of the Bank's total assets.



(2) Methods to manage the asset liquidity and funds gap liquidity

To help manage interest rate risk and liquidity risk, ensure the ability to pay, maintain financial stability and strengthen the ability to respond to emergencies, the Bank enacts the “Guidelines for Interest Rate Risk and Liquidity Risk Management” with respect to NT\$ and major foreign currencies of which the liabilities account for more than 5% of all foreign currency liabilities.

In order to stabilize long-term profitability and maintain business growth, the Bank adopts a management strategy between active and defensive and defines various management indicators to measure and control NTD cash flow gap of various tenors, required reserve ratio, liquid reserve ratio, loans to deposits ratio, liabilities purchased (issuance of negotiable certificates of deposit) and deposits ratio, to control the various indicators within the required scope at any time, and prepare and submit daily, monthly or quarterly statements to the management for review.

7.6.2 The Impact of International and Domestic Policies, Regulatory Changes on the Bank Financial & Business and the Responsive Measures

Changes	Impact	Responsive Measures
The competent authority promulgated and amended or updated “additional articles 1 and 2 of article 12 of the Banking Act of the Republic of China”	The Bank engagement in home loans and consumer loans shall consider the problem that guarantor carefully.	The restrictions on requiring guarantor shall be processed according to rules. When strengthening claims or debtor provide for general guarantor, declaration letter shall be announces during verifications to ensure guarantor understand the legal duties and risk he/she is responsible of, and then the declaration letter is kept for future reference after being sign off by announcer and guarantor.
The competent authority abolish the “Direction for Banks engage in wealth management business”, “Guidelines for Banks Selling Financial Products to Customers Other than Wealth Management Customers” and “The Self Disciplinary Rules for bank engage in wealth management and financial products selling”.	The internal operational procedures that affect the Bank wealth management business.	Parts of the self-disciplinary rules are incorporated into internal business stipulations of the Bank, “the wealth management” section of the Bank’s business procedure manual.
The Personal Information Protection Act announced on Sep. 21, 2012 and amended on May 26, 2010 is implemented on Oct. 1, 2012, excluding article 6 and 54.	Impacting on the Bank various operations related to processing, collecting and using personal information of our customers.	To cope with amendments (updates) of regulations, relevant operational rules and tables, collection and processing of personal information notification, and establishing a customer information protection management committee and work group for the Bank.
The competent authority promulgated and amended “Mandatory Provisions of Standard Form Contract for Personal Online Banking Services”, “Prohibitory Provisions of Standard Form Contract for Personal Online Banking Services”, and “Standard Form Contract for Personal Online Banking Services”.	Impacting on terms of standard form contract of the Bank online banking operation and relevant internal operational procedures.	The Bank amended “account opening application and agreement” and “automatic deposit application and agreement”, and they are in use since Dec. 27, 2012.

Changes	Impact	Responsive Measures
The competent authority promulgated and amended no. 2,3 and 5 of “Directions Governing Limitations on Types and Amounts of the Securities in which a Commercial Bank May Invest”	Affects the Bank’s currency range of investment in securities.	After the currency settlement mechanism is established between Mainland China and Taiwan, the Bank may expand the investment to securities underlying that is denominated in RMB currency.
The competent authority promulgated “The Capital Adequacy and Capital Category of Banks” and “The Methods for calculating Bank’s regulatory capital and Risk Weighted Assets”	This impacts the capital adequacy ratio of the Bank.	According to newly amended stipulations, the Bank estimating the capital adequacy ratio shall be increased again while planning to apply for the issuance of debts as a response measure.

7.6.3 The Impact of Technology Development and Industrial Changes on the Bank Finance & Business and the Responsive Measures

Changes	Impact	Responsive Measures
The significant of the security on technology information.	It is helpful to prevent information systems and clients’ database from being intervened and destroyed illegally, to protect the clients’ interest and business operation.	Continuously strengthen the information security management mechanism and emergency coping measures.
In order to exert the group’s business performance, domestic large-scale financial organizations are intended to include small-scale financial holding companies.	The Bank is not subordinated to any financial holding companies, the Bank must work more hard.	In order to cope with the development trend of the local financial market, the Bank dedicated to strengthening the quality of management and upgrading competitive strength.

7.6.4 The Impact of Image Change on the Bank and the Responsive Measures

The Bank shakes off the stiff operation as a state-run bank since the Bank was privatized. The operating policy has been made more flexible and with better assets quality. In response to the severe competition in the economic environment and financial markets, the Bank intend to reinforce operating constitution continuously and to reach another peak in business with a good image and professional operating decision and method.

7.6.5 Expected Benefit, Potential Risk of Future Merger and the Responsive Measures: None.

7.6.6 Expected Benefit and Potential Risk of Expanding Business Locations

We will have business locations set up nationwide to improve our operating effectiveness and generate profits. The risk of damaging the operating constitution due to the setup of new branch offices is also considered.

7.6.7 Risk of Centralized Business Operation

Centralized business faces the challenge of credit risk, market risk, and operational risk. For the sake of reducing the impact of the risks, the risk is to be decentralized through the mechanism of a business station, source of customers, and diversified product lines.

7.6.8 The Impact and Risk of Business Ownership Change on the Bank: None.

7.6.9 The Impact, Risk and countermeasures of whom’ equity change on the Bank, Directors, Supervisors, the Shareholder Owns more than 1% of the Bank’s Outstanding Shares, there was large transfer or change of equity:



1. The Impact and Risk of large transfer or change of equity:

For many years, our directors, supervisors, the shareholder owns more than 1% of the bank's outstanding Shares, there was no large transfer or change of equity. Thus, there is no impact on operation or risk on the Bank.

2. Countermeasures: If there was a transfer, it shall be processed in the manner according to article 25 of "The Banking Act of the Republic of China".

7.6.10 Litigated or Non-Litigated Events

There were no major litigated or non-litigated events in progress other than business-related litigations.

7.6.11 Other Significant Risks and the Responsive Measures: None.

7.7 Responsive Mechanism for Crisis Management

The Bank has regulations stipulated and executed for business processes in order to minimize daily operational risk. The setup of Credit Screening Committee, Business R&D Workshop, Bad Credit Monitoring Workshop, Assets / Liabilities and Risk Management Committee, Personnel Evaluation Committee, Long-term Stock Investment Panel, Trust Property Evaluation Committee and Emergency Preparedness Operation Team; also, the regulations of "Regulations Governing Trust Risk Management", "Regulations Governing Risk Management", "Regulations Governing Investment Policy", "Regulations Governing Legal Risk Management", "Regulations for Compliance of Regulations & System Execution and Planning", "Regulations for Disaster – Prevention and Rescue," and Manual for emergency coping measures are the responsive mechanisms for risk management.

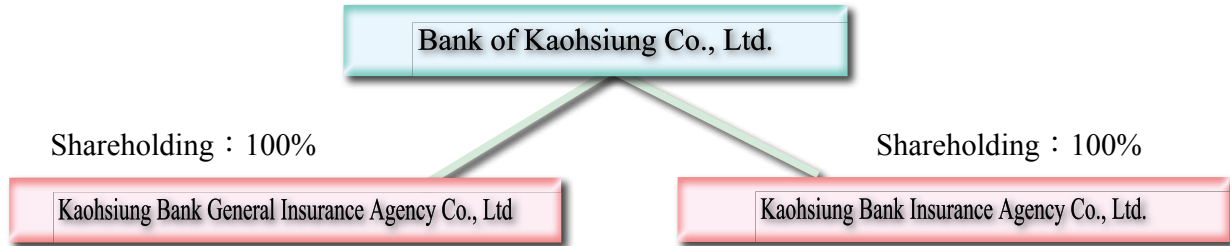
7.8 Other Significant Events: None.

8.1 Summary of Affiliated Companies

8.1.1 Consolidated Statements of Operation of Affiliated Companies

A. Brief Introduction

(a) Affiliated Companies Chart



(b) Basic Information of Affiliated Companies

Unit : NT\$ Million at 2013.3.31

Name	Date of Incorporation	Address	Paid-in Capital	Primary Business Activities
Kaohsiung Bank General Insurance Agency Co., Ltd	2002.03.12	2F, 263 Guanghua 1st Road, Lingya District, Kaohsiung, Taiwan	5.00	Non-Life Insurance Agency
Kaohsiung Bank Insurance Agency Co., Ltd.	2002.10.11	2F, 263 Guanghua 1st Road, Lingya District, Kaohsiung, Taiwan	3.00	Life Insurance Agency

(c) Our Shareholders Representing Both the Holding Company and Subordinates : None.

(d) Directors and Supervisors of Affiliated Companies

Unit : Share / % at 2013.3.31

Name	Title	Company Name or Name of Representative	Shareholding	
			Shares	Shareholding(%)
Kaohsiung Bank General Insurance Agency Co., Ltd		Bank of Kaohsiung Co., Ltd. Ren-Yih Lin	500,000	100.00
	Chairman	Ren-Yih Lin	500,000	100.00
	Director	Jin-Ann Wang	500,000	100.00
	Director	Yi-Jong Lieu	500,000	100.00
	Director	Yuan-Chin Shiang	500,000	100.00
	Director	Mei-Ling Chen	500,000	100.00
	Supervisor	Te-Chin Chou	500,000	100.00
	Supervisor	Ting-Lien Lin	500,000	100.00
Kaohsiung Bank Insurance Agency Co., Ltd		Bank of Kaohsiung Co., Ltd. Ren-Yih Lin	300,000	100.00
	Chairman	Ren-Yih Lin	300,000	100.00
	Director	Yuan-Chin Shiang	300,000	100.00
	Director	Mei-Ling Chen	300,000	100.00
	Supervisor	Ting-Lien Lin	300,000	100.00
	Supervisor	Te-Chin Chou	300,000	100.00

B. Affiliated Companies Business Review and Achievements

Unit : NT\$ Million at 2012.12.31

Name	Paid-in Capital	Total Assets	Total Liabilities	Stockholders' Equity	Operating Revenue	Operating Income	Net Income	Earnings Per Share(NT\$)
Kaohsiung Bank General Insurance Agency Co., Ltd	5.00	7.95	0.33	7.62	2.87	1.77	1.55	3.11
Kaohsiung Bank Insurance Agency Co., Ltd	3.00	110.03	38.58	71.45	192.77	57.80	48.25	160.85

8.1.2 Consolidated Financial Statements of Affiliated Companies

A. Declaration


BANK OF KAOHSIUNG CO., LTD.
Declaration

Mar. 28, 2013

The companies included in the consolidated financial statements of affiliated enterprises prepared by the Bank for FY 2012 (from Jan. 1, 2012 to Dec. 31, 2012) in accordance with the "Criteria for the Compilation of Consolidated Business Reports of Affiliated Enterprises, Consolidated Financial Statements of Affiliated Enterprises and Affiliated Enterprises Reports" are identical with those to be included in the consolidated financial statements of parent company and subsidiaries in accordance with Statement of Financial Accounting Standards No. 7, and the relevant information to be disclosed in the consolidated financial statements of affiliated enterprises has already been disclosed in the consolidated financial statements of parent company and subsidiaries. Therefore, the Bank does not prepare the consolidated financial statements of affiliated enterprises separately.

BANK OF KAOHSIUNG CO., LTD.

Chairman :



B. The Bank's Audited Consolidated Financial Statements for FY 2012, please refer to page 148-151.

8.1.3 Affiliated Companies Report

A. Relation of the "parent company and wholly-owned subsidiary": Please refer to page 161 for "Special Disclosure – Summary of Affiliated Companies".

B. Transactions, property trade, financing, assets rental, and endorsement between the parent company and wholly-owned subsidiaries: Please refer to page 109 for "Notes to Financial Statements 5.RELATED PARTIES TRANSACTIONS".

8.2 Private Placement Security and Financial Bonds in FY 2012 and Up to Mar. 2013: None.
8.3 The Shares in the BOK Held or Disposed of by Subsidiaries in FY 2012 and Up to Mar. 2013: None.
8.4 Other Supplementary Disclosure: None.

No	Item	Reference page or description
1	Significant Accounting Policies	88
2	Method and Term of Depreciation for Property and Equipment Cost	92
3	Segment Information	Segment information are disclosed in the consolidated financial statements from this year.
4	Name of the Certified Public Accountant Firm and a Unqualified Opinion is Expressed in the Independent Auditor's Report	83
5	The Amount and Nature of Non – Audit Fees Paid to the Certified Public Accountant and the Related Party of the CPA	49
6	Affiliated Enterprises Chart and Stock Structure of the Related Parties	161
7	The Endorsement, Guarantee, Loans to Others, and Derivative Commodity Transaction of the Related Parties	1. Please refer to page 109-112&162. 2. The Relative parties don't have endorsement, guarantee, loans to others, and derivative transactions in FY 2012.
8	Related Parties Transactions	109-112
9	Review of the Macro – Economy Environment and the Trend of Bank Industry	Please refer to page 3-4 for "Domestic and Foreign Economic and Financial Environment" and page 64 for "Market Analyses".
10	Plans for Long-term and Short-term Business Development	65-66
11	Future Plans, Fees and progress of R&D	65
12	Services Details	Please refer to page 64 for "Regions where the Bank operates ", "Future supply and demand and growth of the market in which the Bank is engaged", "The Bank's competitive niche" and "Advantageous and disadvantageous factors of the Bank's prospect, and response measures ".
13	Products Package	62
14	Key Performance Indicator (KPI)	Please refer to page 165 appendix I.
15	The Historical Performance Index	Please refer to page 75 for item "Profitability".
16	The Risk Management Policy	125-134
17	Organizational Structure of Risk Management	Please refer to page 127 for "Credit risks management organization and structure", to page 129 for " Operational risks management organization and structure", to page 131-132 for "Market risks management organization and structure", to page 133 for "Asset Securitization management organization and structure", to page 134 for "Banking book interest rate risk management organization and structure".
18	The Training of Managers for Corporate Governance	Please refer to page 166 appendix III.
19	Employees' Further Education and Training	67-68
20	The details about licenses and certificates acquired by the staff related to financial information disclosure from the competent authorities.	Please refer to page 165 appendix II.



No	Item	Reference page or description
21	The Behavior and Ethics Codes of Staffs	<p>1. We have the "Guidelines for the Staffs Services" stipulated for the reference of employees in regulating their attitudes and acts at work, please refer to page 167 appendix IV.</p> <p>2. The Bank appraises the performance of staff according to the "Guidelines for Reward and Punishment of Staff", Main Points Governing Annual Service Performance Appraisal and Main Points Governing Promotion and Performance Appraisal. The various guidelines shall be informed to the staff in writing, and reward and punishment shall be rendered in accordance with the guidelines.</p>
22	Measure for Working Environment and Staffs' Safety Protection	<p>1. Security and sanitation:</p> <p>(1) A security team was established to conduct training on fire safety, prevention against theft, robbery, disasters and other situations on an annual basis to ensure the safety of our employees and the security of The Bank's properties.</p> <p>(2) The Bank maintains the safety of its building structure and ensures proper use of building equipment in accordance with Section 77 of The Building Act. The Bank also conducts regular "Safety Inspection and Reporting of Fire Protection and Escape Facilities,"</p> <p>(3) "H1N1 Responsive Measures" and an emergency responsive team were established during the widespread H1N1 virus.</p> <p>2. Employees' personal safety and the safety of the working environment</p> <p>(1) Video surveillance, alarms, and connections to security forces had been installed in the lobby of each business unit. Lobby security personnel are hired to control entry into business premises, thus ensuring the personal safety of our employees and customers.</p> <p>(2) Safety and sanitary guidelines had been established. Automatic inspections include the regular maintenance of elevators, fire-fighting facilities, corporate vehicles, water fountains, and air conditioners. First-aid kits are also in place to minimize potential damages while ensuring the health and safety of our employees and building a quality working environment.</p> <p>(3) To ensure employees' personal safety and hygiene, The Bank has appointed dedicated staff and supervisors to handle all matters relating to employees' safety and hygiene.</p> <p>(4) To prevent business disruptions and injuries to employees as a result of physical violence, The Bank has established "Principles of Security Enforcement" to handle public protests.</p>
23	Social Responsibilities Performed	68-69
24	Directors, Supervisors, and Their Education and Experience, Shareholdings, and the Elected Date	11-12
25	The Independence of Directors and Supervisors	13-14
26	Directors and Supervisors Serviced Concurrently with the Bank and the Other Company Information	12
27	The Remuneration of Directors and Supervisors	19-24
28	The Remuneration of President and Vice Presidents	24-25

No	Item	Reference page or description
29	The Pledged Shares of Directors, Supervisors, Officers, and Major Shareholders	51-53
30	Directors' / Supervisors' Attendance in Directors' Meetings and Independent Directors' Attendance in the Audit Commission	1. Directors' / supervisors' attendance in directors' meetings, please refer to page 28-30. 2. The Bank did not establish an auditing committee up to March 2013.
31	Operations of the Board of Directors and Audit Commission	1. Operations of the Board of Directors, please refer to page 29-30. 2. The Bank has not established auditing committee up to March 2013.
32	The Training of Directors and Supervisors	39
33	Corporate Governance Practices	31-32
34	Summarization of Resignation and Dismissal of Parties Related to the Financial Statement	48
35	Name and Title of the Top Ten Employees Who Were Distributed Employees Share Options Receipts.	The Bank has not issued employees share options receipts.
36	Name and Title of the Top Ten Employees Who Were Distributed Employees' Bonus and the Amounts in 2011.	The bank has not distributed employee bonus in 2011.
37	List of Officers, Shareholdings, Experience, Education, Serviced Concurrently with the Other Company and Employees Shares Options.	The Bank has not issued employees shares options, the other information please refer to page 15-18.
38	The Top Ten Shareholders and the Actual Shareholdings and Ratio	58
39	Information for Top Ten Shareholders Being the Related Party	54
40	Major Resolutions in the Regular Shareholders' Meeting and the Execution of the Resolutions Reached	48

Appendix I : The Bank's Key Performance Indicator (KPI)

Unit : % , at 2012.12.31

KPI	The Bank	The Average of Domestic Banks
Capital Adequacy Ratio	9.45	12.57
Ratio of NPL	0.85	0.40

Appendix II : The details about licenses and certificates acquired by the staff related to financial information disclosure from the competent authorities

2012.12.31

The staff related to financial information disclosure		Qualification	Person
Item	Person		
Internal-Auditing staffs	24	Basic test for banks internal control (Taiwan Academy of Banking and Finance)	21
		Certified Internal Auditor (CIA), the Institute of Internal Auditors (IIA)	3
Financing & accounting staffs	29	Certified Public Accountants, CPA	1

Appendix III : Training record of manager in 2012

Period	Title	Name	Training Record		
			Class Name	Hours	Unit in Charge
Q1	Exec. Vice President	Chun-Ching Ko	On the job training for Management in Trust enterprises	12	Taiwan Academy of Banking and Finance
	Exec. Vice President	Yi-Jong Liou	On the job training for Management in Trust enterprises	12	Taiwan Academy of Banking and Finance
	Board of Directors/ Auditing Dept. Chief Auditor	Chung-Chen Lin	IFRS workshop	6	Taiwan Academy of Banking and Finance
			The social club for Internal Audit Management at financial industry.	2.5	The Institute of Internal Auditors, ROC(Taiwan)
			Pre-job training for Investment consulting staff.	12	SECULOTIES INVESTMENT TRUST & CONSULTING ASSOCIATION OF THE R.O.C.
			On the job training for Management in Trust enterprises	12	Taiwan Academy of Banking and Finance
	Treasury Dept., Vice President and General Manager	J. C. Shou-Jen Chen	The 2012 On the job training workshop for senior supervisors and sales person at securities enterprises.	7.5	Trust Association of R.O.C.
On the job training for Management in Trust enterprises			12	Taiwan Academy of Banking and Finance	
Business Management Dept., Vice President and General Manager	Ming-Hung Wu	Collaborative promotion of E-commerce seminar	4.5	FINANCIAL INFORMATION SERVICE CO., LTD.	
Q2	President	Jeff Chen	Trust supervisors (including on-the-job) training session	3	Taiwan Academy of Banking and Finance
	Exec. Vice President	Chun-Ching Ko	Competition and Cooperation – Building win-win labour relationship – The annual media conferences of implementation of new collective labour relations laws.	2.5	Council of Labor Affairs
			Trust supervisors (including on-the-job) training session	3	Taiwan Academy of Banking and Finance
			Trust supervisors (including on-the-job) training session	3	Taiwan Academy of Banking and Finance
	Exec. Vice President	Yi-Jong Liou	Trust supervisors (including on-the-job) training session	6	Taiwan Academy of Banking and Finance
	Board of Directors/ Auditing Dept. Chief Auditor	Chung-Chen Lin	The seminar of management and business policy of insured institutions.	8	CENTRAL DEPOSIT INSURANCE CORP
The 30th seminar for audit supervisors.			12	Taiwan Academy of Banking and Finance	
Anti-money laundering			3	SECULOTIES INVESTMENT TRUST & CONSULTING ASSOCIATION OF THE R.O.C.	
Q3	Exec. Vice President	Chun-Ching Ko	The plan of developing financial business that has characteristics of both Mainland China and Taiwan.	5	The Bankers Association Of The Republic Of China
	Treasury Dept., Vice President and General Manager	J. C. Shou-Jen Chen	The plan of developing financial business that has characteristics of both Mainland China and Taiwan.	5	The Bankers Association Of The Republic Of China
Q4	Exec. Vice President	Chun-Ching Ko	The briefing of "the project of financial management platform for Taiwan locals".	3	Trust Association of R.O.C.
			Logistics for company governance and shareholders meetings.	2.5	Taiwan Securities Association
	Board of Directors/ Auditing Dept. Chief Auditor	Chung-Chen Lin	On the job training for salesperson and departmental supervisor of Securities investment consulting unit.	4	SECULOTIES INVESTMENT TRUST & CONSULTING ASSOCIATION OF THE R.O.C.
	Business Management Dept., Vice President and General Manager	Anna Hsu	Professional Development of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	30	ACCOUNT RESEARCH AND DEVELOPMENT FOUNDATION

Appendix IV : Guidelines for the Staffs Services

1. The staff of Bank of Kaohsiung (“the Bank”) shall comply with laws and the Bank’s rules and shall provide loyal service in accordance with these Rules.
2. The staff shall be on and off duty as scheduled, except holidays and vacations, and shall punch their card or sign in personally, and be prohibited from being late for work or leaving earlier than scheduled.
3. The staff shall not leave the office during the business hours without applying for leave or seeking the supervisor’s approval. The rules for application for leave shall be defined separately.
4. The staff shall pay attention to their dress and looks, and shall wear the uniform prepared by the Bank and the identification card.
5. The staff shall take the responsibility under the job-division system and abide by the supervisor’s guidance, and shall state their opinion or suggestions, if any, honestly.
6. The staff shall serve customers in a humble and moderate manner, and shall make every endeavor to meet the customers’ needs perfectly and repaidly. If the customers’ requests related to business other than that handled by the staff personally, they shall advise the customers or transfer the customers’ requests to other staff in charge in a moderate manner, and be prohibited from acting unknowingly with an excuse.
7. The staff shall perform their own duties, and shall help the other colleagues who are busy working with their work pursuant to the supervisor’s guidance, and be prohibited from evading helping them with an excuse.
8. The staff shall not go slow at work, and shall respond to the requests to be handled by them at any time. Futhermore, the staff shall not review the statement of account, book and record, documents and files that are not handled by them personally. The staff shall maintain the documents, files and statements of account handled by them with care and be prohibited from damaging or losing such documents, files and statements of account or taking them out without the supervisor’s prior consent.
9. The staff shall handle the cash, notes, statements of accounts, files and other important materials from time to time and store them in a safe place pursuant to the requirements. In the case of extraordinary incidents, the staff shall make every endeavor to dispose of them in an appropriate manner.
10. The staff shall be prohibited from smoking in any non-smoking area or carrying contrabands, lethal weapons or flammable and explosive articles to the office of the Bank.
11. The staff shall not abuse all public properties and be prohibited from damaging or wasting them.
12. The staff shall not assume any other part-time jobs impairing their current jobs without the supervisor’s approval.
13. The staff shall not request other to concern for personal promotion or transfer.
14. The staff who are ordered to transfer shall report in for the new duty within 7 days upon receipt of the order, and shall fulfill the hand-over procedure as required without excuse, provided that this shall not apply where the staff apply for an extension to meet the business needs and the application for extension is granted.
15. Where the staff resign or are transferred or dismissed, they may not leave their office until they provide a detailed and full explanation about the job responsibility taken by them and files, accounts and payment handled by them.
16. The staff shall not run their own business, or engage in investment or speculative business, directly or indirectly, by taking advantage of their job responsibility.
17. The staff shall not make any inappropriate guarantee externally or engage in other illegal activities or conduct impairing the Bank’s good will under the name of the Bank or their job titles.
18. The staff shall not ask depositors, borrowers or other customers for any commission, compensation or other illegal profit with any excuse.
19. The staff shall keep confidential all transactions between the Bank and customers and all business secrets and be prohibited from disclosing them.
20. Where the staff cause damage to the Bank intentionally or negligently, they shall be subject to the relevant punishment, and be liable for the relevant damages if the case is determined to be material upon examination.
21. These Rules will be enforced upon the resolution of the Board of Directors; the same process is required if revised.



Business Unit Directory

Unit	Address	TEL
Head Office	168 Po Ai 2nd Road, Tsoying District, Kaohsiung, Taiwan	(886)7-557-0535
Municipal Treasury Dept.	1F, 2 Su Wei 3rd Road, Lingya District, Kaohsiung, Taiwan	(886)7-336-0408
International Banking Dept.	2F, 51 Chung Hwa 4th Road, Lingya District, Kaohsiung, Taiwan	(886)7-535-5375
Trust Dept.	3F, 27 Liu Ho 1st Road, Hsinhsing District, Kaohsiung, Taiwan	(886)7-238-5188
Business Dept.	1~3F, 168 Po Ai 2nd Road, Tsoying District, Kaohsiung, Taiwan	(886)7-557-0535
Offshore Banking Unit	5F, 168 Po Ai 2nd Road, Tsoying District, Kaohsiung, Taiwan	(886)7-557-0535
Tso Ying Branch	479 Tsoying Ta Road, Tsoying District, Kaohsiung, Taiwan	(886)7-581-9131
Pei Kaohsiung Branch	1F, 1012 Min Tsu 1st Road, Sanmin District, Kaohsiung, Taiwan	(886)7-359-9291
Nan Tze Branch	141 Chien Nan Road, Nantze District, Kaohsiung, Taiwan	(886)7-352-4391
Yu Chang Branch	780-3 Chun Hsiao Road, Nantze District, Kaohsiung, Taiwan	(886)7-363-7478
Ku Shan Branch	1018 Chiu Ju 4th Road, Kushan District, Kaohsiung, Taiwan	(886)7-532-1001
San Min Branch	287 Po Ai 1st Road, Sanmin District, Kaohsiung, Taiwan	(886)7-321-8813
Wan Nei Branch	470 Ta Shun 2nd Road, Sanmin District, Kaohsiung, Taiwan	(886)7-386-5905
Min Cheng Branch	1F, 168 Ming Cheng 1st Road, Sanmin District, Kaohsiung, Taiwan	(886)7-359-5336
Chiu Ju Branch	459 Yang Min Road, Sanmin District, Kaohsiung, Taiwan	(886)7-381-2499
Liu Ho Branch	1~2F, 27 Liu Ho 1st Road, Hsinhsing District, Kaohsiung, Taiwan	(886)7-238-4888
Chien Chin Branch	145 Liu Ho 2nd Road, Chienchin District, Kaohsiung, Taiwan	(886)7-286-1136
Yen Cheng Mini Branch	1~2F, 6 Ta Reng Road, Yencheng District, Kaohsiung, Taiwan	(886)7-551-1061
Chien Kuo Branch	1F, 199 Chien Kuo 1st Road, Lingya District, Kaohsiung, Taiwan	(886)7-223-0511
Nan Kaohsiung Branch	1F, 51 Chung Hua 4th Road, Lingya District, Kaohsiung, Taiwan	(886)7-330-1060
Shih Fu Branch	1F, 2 Su Wei 3rd Road, Lingya District, Kaohsiung, Taiwan	(886)7-335-0260
San To Branch	171 San To 2nd Road, Lingya District, Kaohsiung, Taiwan	(886)7-751-1168
Chien Chen Branch	180 Min Chuan 2nd Road, Chienchen District, Kaohsiung, Taiwan	(886)7-332-7131
Tsao Ya Branch	52 Yu Kang Road, Chienchen District, Kaohsiung, Taiwan	(886)7-841-3847
Hsiao Kang Branch	2F, 158 Hsiao Kang Road, HsiaoKang District, Kaohsiung, Taiwan	(886)7-812-2268
Kwei Lin Branch	332 Kwei Yang Road, HsiaoKang District, Kaohsiung, Taiwan	(886)7-793-1616
Chi Chin Mini Branch	54 Thung Shian Road, Chichin District, Kaohsiung, Taiwan	(886)7-571-8263
Feng Shan Branch	362-6, Sec. 2, Ching Nien Road, Fengshan Dist., Kaohsiung, Taiwan	(886)7-776-3688
Da Fa Branch	1~2F, 480, Fong Lin 3rd Road, Daliao Dist., Kaohsiung, Taiwan	(886)7-786-1899
Gangshan Benjhou Branch	17 Ben Gong Road, Gangshan District, Kaohsiung, Taiwan	(886)7-622-3566
Pin Tung Branch	1F, 152 Chung Cheng Road, Pingtung City, Taiwan	(886)8-736-8811
Tai Nan Branch	191 Cingping Road, Anping District, Tainan City, Taiwan	(886)6-295-5588
Tai Chung Branch	1~2F, 69 Sec.3, Huei Chung Road, Nantung District, Taichung City, Taiwan	(886)4-2252-2588
Dali Branch	290、292 Defang S. Road, Dali District, Taichung City, Taiwan	(886)4-2481-6799
Hsin Chu Branch	633, Sec. 2, Jingguo Road, North Dist., Hsinchu City, Taiwan	(886)3-523-0333
Tao Yuan Branch	413、415、417 Min Sheng Road, Tao Yuan City, Taiwan	(886)3-338-1288
Chung Ho Branch	198, Jian 1st Road, Chungho Dist., New Taipei City, Taiwan	(886)2-8227-1399
Banciao Branch	100, Sec. 2, Sihchuan Road, Banqiao Dist., New Taipei City, Taiwan	(886)2-8967-1250
Taipei Branch	1~2F, 168 Sung Chiang Road, Chungsang District, Taipei, Taiwan	(886)2-2563-0101
Ta Chih Branch	1F, 97 Jingye 1st Road, Chungsang District, Taipei, Taiwan	(886)2-8502-1656
Po Ai Branch	B1、1F, 38 Po Ai Road, Chungcheng District, Taipei, Taiwan	(886)2-2375-1188



Chairman *Chen Toong min*

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