



BANK OF KAOHSIUNG

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Chen Tsong-min

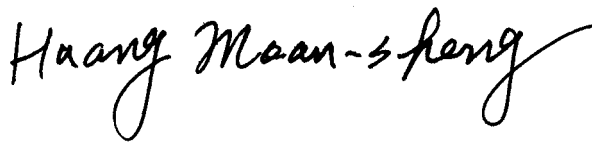
Chairman

In 2013, nations around the world proposed economic revival to bail them out of the recession. However, the crisis between north and south Korea, the territorial dispute among China, Japan, and Korea, and the U.S. Fed QE (Quantitative Easing) Tampering caused international funds to withdraw. The turmoil in global stock market and the foreign currency exchange market intensified. The U.S. fiscal cliff and China economic adjustment caused sluggish global economic growth. However, the economic recovery of the developed nations led by the United States is noticeable, but with limited growth, while the economic turmoil for emerging nations is worsening.

It is difficult to expand consumption in our nation due to the decline of real income and salaries and the concern over global economy. In terms of trade, due to the limited increase in demand of major European and American consumers, the economy of China is cooling down. That results in a slowdown in our exports and a decline in private investment. The annual economic growth in 2013 was only 2.11%.

Looking forward to 2014, the main variables of the global economy are still the U.S. QE Tampering and unemployment rate, the economic recovery of EU and Japan, the adjustment and change of China's macroeconomic development, and the economic fluctuation in emerging markets and the geopolitical risk. On the domestic front, the probability of real estate prices decline, the structural adjustment of industrial development, and the severe competition of financial industry are increasing banking risks. For the sound development of financial industry, the authorities have increased Tier I loan assets allowance for bad debt reserve ratio, upgraded bank's capital adequacy management, upgraded real estate loan concentration risk control, and increased financial industry business tax rate that impact bank profitability. The Bank's have consistently upheld the principle of risk dispersion and diversified operations to find business opportunities in this difficult environment.

Through the diligent efforts of the management team and all of the Bank's associates, The Bank has made timely adjustments to the Bank's business strategy. All business divisions are steadily growing and making profits. The Bank hereby reports its operation results in 2013, summary of business plan in 2014 as follows:



President



1.1 Operating Performance in 2013

1.1.1 Domestic and Foreign Economic and Financial Environment

1.1.1.1 Economic Outlook

The U.S. QE Tampering is causing turmoil in financial markets of emerging countries. The dual influence of sluggish external demand and internal restructuring are slowing down the economic growth of China. The stagnant growth of export orders is slowing down annual growth of export and impacting economic recovery. In terms of private investment, the unstable economic recovery and manufacturers' conservative willingness to invest is causing the forecast of growth in private investment to be adjusted down dramatically. In terms of domestic demand, due to the lack of a substantial improvement in labor market, the limited growth of real wages, and the food security crisis, therefore overall consumption willingness is hard to boost and economic momentum is not satisfactory.

1.1.1.2 Financial Situation

The Financial Supervisory Commission (FSC) allows DBU to start RMB business by easing the regulations and encouraging financial industry in order to aggressively develop overseas business in Mainland China and Southeast Asia. Moreover, FSC tries to boost OBU's operations in overseas syndicated loans, and RMB-related businesses. In addition, a number of financial institutions achieved significant growth in profits last year due to the widen deposit and loan spreads, growth of operational momentum, and proper control of credit risk.

1.1.2 Transformation of the Bank's Organization

1.1.2.1 The Internationalization Team was formed in October 2013 to achieve a quality bank in Asia-Pacific region.



1.1.2.2 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.

1.1.3 Results of Business Plans and Operating Strategies for FY 2013

Unit: NTD/USD 100 Million, %

Operating Item	FY	2013	2012	Growth Rate (%)
Deposit Business		1,929.35	1,881.47	2.54
Loan Business		1,673.28	1,616.49	3.51
Foreign Exchange Business (USD)		51.25	47.35	8.24
Commission & service fees		4.29	3.95	8.61

1.1.4 Execution of Business Target:

In 2013, the average deposits balance was NT\$ 192.935 billion, or 99.97% of the deposits target; the average loans balance was NT\$ 167.328 billion, or 100.80% of the loans target; foreign exchange business was US\$5.125 billion, or 102.50% of the target; net income before tax was NT\$ 470 million, or 104.44% of the target.

1.1.5 Analyses of Financial Revenue, Expenditure and Profitability

The changes in 2013 in budget settlement as compared with the same period of the previous year (2012) are shown below:

Unit : NTD Million,%

Item		2013	2012	Growth Rate (%)
Net interest revenue		2,269	2,106	7.74
Net non-interest revenue		645	581	11.02
Net revenue		2,914	2,687	8.45
Credit loss expenses		(401)	(261)	53.64
Operating expenses		(2,043)	(1,998)	2.25
Income before tax		470	428	9.81
Net income		419	458	(8.52)
ROA	Before income tax	0.21	0.19	10.53
	After income tax	0.18	0.21	(14.29)
ROE	Before income tax	4.41	4.18	5.50
	After income tax	3.94	4.47	(11.86)
Net profit margin on after income tax		14.38	17.06	(15.71)
EPS on after income tax		0.58	0.64	(9.38)

Note: The increase in Income tax benefit after the revision of fiscal 2012 report, due to the adoption of International Financial Reporting Standards ("IFRS"), was the reason for the decline in Net income of fiscal 2013 from 2012.

1.1.6 Status of R & D

- 1.1.6.1 Start offering Gold Passbook business. The transaction in NTD and foreign currency can be processed over the counter and by internet.
- 1.1.6.2 Develop electronic financial services and actively promote mobile banking service.

1.2 Business Plan in 2014

1.2.1 Business objectives and Important Operating Policies

- 1.2.1.1 Loans: Adjust the structure of loan portfolio, keep loan amount stable and increase profit high, and stress the importance of emphasize loan quality and quantity.
 - (1) Gradually reduce municipal loans to reduce the dependence on the city government, and increase profitability.
 - (2) Adjust the structure of assets portfolio and increase the average loan interest rate.
 - (3) Expand increase foreign currency loans and increase the proportion of high-yield loans.
- 1.2.1.2 Deposits: Enhance deposits solicitation and embed operating base.
 - (1) Continuously expand increase the deposits and to increase the real estate loan amount granted in the Banking Act.
 - (2) Compete for core deposits and increase demand deposits, and to reduce funding cost.
 - (3) Strengthen the development of foreign currency exchange deposits to and provide a steady source of funds for foreign currency assets.
 - (4) Adjust the large amount deposit policy flexibly depending on the business needs and to secure the loan basis.
- 1.2.1.3 International financial business: Master offshore banking development and enhance the profitability of international financial business.
 - (1) Take advantage of the cross-strait financial deregulation to compete for quality loan business and increase profits.
 - (2) Continuously stabilize overseas bond investment, increase interest income, and improve financial operation income.
- 1.2.1.4 Non-interest income business: Comprehensively develop commission related businesses and to increase profitability level.
 - (1) The fund and insurance service charge income commission are the two income engines source of wealth management.
 - (2) Combined with credit business to promote real estate trust and pre-sale house performance bond and to increase non-interest income.
 - (3) Strengthen the development of Develop import and export foreign exchange business to increase service charge commission income.
- 1.2.1.5 Information Systems: Improve operational efficiency and strengthen operation risk control.
 - (1) Construct front-desk operation integration platform, update terminal system function, and improve operational efficiency and security control.
 - (2) Develop mobile banking and introduce, corporate finance banking network and online banking function, and improve service quality.
 - (3) Initiate artificial statements computerization to enhance operational efficiency.
- 1.2.1.6 Organizational restructuring organization: Promote organizational reengineering and exercise to promote organization effectiveness.
 - (1) Strengthen front-desk marketing function and one-stop-shop sales service.
 - (2) Improve increase the Bank's business income with the unified power and professional division of work.



1.2.1.7 Internal Control: Continuously improve the effectiveness of internal control and secure a comprehensive operation.

- (1) Continuously strengthen review mechanism and substantiate self-auditing to prevent nonconformities.
- (2) Each business unit shall strengthen the assistance and guidance to the business operation of the branches.

1.2.2 Expected Business Objective

1.2.2.1 Average Deposits Balances : NT\$ 198.50 billion.

1.2.2.2 Average Loans Balances : NT\$ 169.00 billion.

1.2.2.3 Foreign Exchange Sales : US\$ 5.20 billion.

1.2.2.4 Commission and Service Fees : NT\$ 0.453 billion.

1.3 Development Strategy in Future

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

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

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

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

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

1.4.1 External competitive environment

In the last year, the financial supervisory authority of Mainland China had accelerated permitting Taiwanese banks to setup business operations in the last year, and opened up Jiangsu Kunshan and Shanghai Free Trade Area. The cross-strait financial activity is growing intensely. Currently, nineteen Taiwanese banks have setup branches or financial leasing companies in Mainland China. The profit from Mainland area has significant growth and became one of the major sources of profit to Taiwanese banks in 2013. In addition, the financial authority has encouraged Taiwanese banks to expand overseas business, making the Southeast Asian region the popular area for business development of Taiwanese banks with success reported. With the adoption of the Cross-Straits Economic Cooperation Framework Agreement (ECFA) and the deregulation of the competent authorities, the internationalization of the Taiwanese banks is accelerated and the overseas income will grow dramatically, which will enhance the international competitiveness and profitability of Taiwanese banks significantly. The Bank is currently unable to enter the overseas markets due to the regulatory restrictions; however, the Bank has actively developed OBU business to undertake overseas syndicated loan business in order to increase source of profits. The Bank will continue to take roots in the domestic industry to become a "small but outstanding" quality bank, and will actively plan towards the goal of internationalization.

1.4.2 Regulatory environment

Add (amend) the Bank' Articles of Incorporation, related operations regulations, business contract and deed, forms, and RMB-related businesses offering in accordance with the addition and amendment of the "Regulations Governing Foreign Exchange Business of Banking Enterprises," "Rules Governing the RMB Derivatives Business Scope, Application Procedures, Business Specifications, and Reports Filing by the Designated Banks," "Rules Governing the Foreign Exchange-Related Structured Instruments Promoted by the Designated Bank," "Bank Capital Adequacy Supervisory and Review Principle Data Filing," "Guidelines

for the Sales of Non-Performing Loans by Financial Institutions,” “Regulations Governing Foreign Exchange Balance or Transactions Reporting,” “Guidelines for Counseling Clients Reporting Foreign Exchange Balance or Transaction by Banks,” “Regulations Governing Deposit Accounts and Suspected Illegal or Abnormal Transactions,” “Set the Scope of Electronic Voting of the Company,” and “Consumer Loan Agreement Template and Mandatory and Non-Mandatory Matters” by the Central Bank of the Republic of China (Taiwan) and Financial Supervisory Commission.

Financial Supervisory Commission commands to have the requirements of dormant account abolished since the year of 2013; also, orders to have all dormant accounts activated unconditionally within three months. The Bank’s business contracts and related operations specifications are amended accordingly.

1.4.3 Macroeconomic environment

Due to the steady economic recovery of developed countries and aggressive recruitment and salary increases in domestic enterprises, the atmosphere and confidence of consumption in the private sector has been improved which is helpful to private consumption expansion. The International Monetary Fund (IMF) predicts that the world trade growth rate will increase from 2.7% in 2013 to 4.5% in 2014, which is expected to help boost exports. In terms of investment, the continuing investment in advanced manufacturing process by domestic semiconductor industry is expected, added with the promotion of major domestic economic plans (such as, Taoyuan Aerotropolis, the free trade demonstration area, and the potential commercial benefits after signing the Cross-Strait Agreement on Trade in Service) that will help improve domestic investment momentum.

The Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. Taiwan (DGBAS) forecasts the economic growth of 2014 to be 2.82%, which is higher than the 2.11% of 2013. The Central Bank of the Republic of China (Taiwan) maintains the policy of frozen interest rates. New Taiwan Dollar exchange rate is weak, that is helpful in easing the financial situation and increasing economic growth momentum. However, while facing the 1% allowance for bad debt appropriated for regular loan, the increase of business tax rate and the popularity of the third-party payment and mobile payment, the financial industry will face heterogeneous competition and cooperation in market.

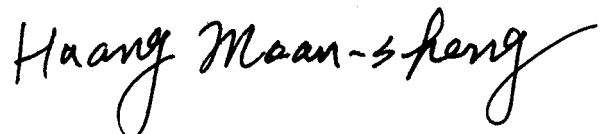
1.5 The Bank’s Most Recent Credit Rating Result and Date of Rating

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

Chairman



President





2.1 Date of Incorporation: Jan. 13, 1982

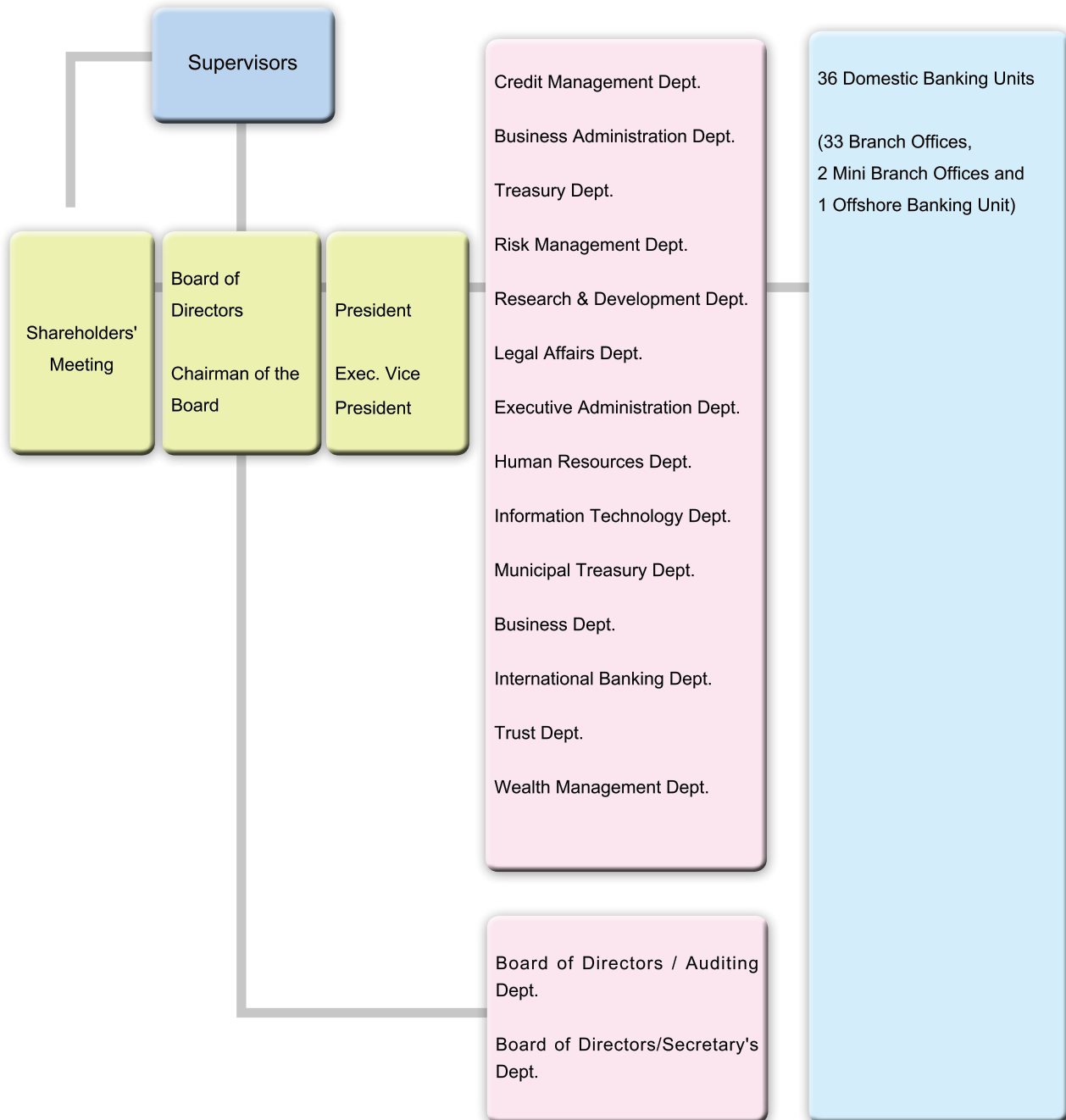
2.2 Company History

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 32 years and the privatization, the total paid-in capital has amounted to NT\$ 7,210,491,900 to Mar. 2014. In the past 32 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. 2014. 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

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	325,855,912	45.19
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	325,855,912	45.19
Managing Director	Li- Ming Hsu (Representative of Kaohsiung City Government)	2011.06.16	2014.06.15	2009.06.18	242,236,966	46.07	325,855,912	45.19
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	325,855,912	45.19
Director	Yuan- Pei Chou (Representative of Kaohsiung City Government)	2011.06.16	2014.06.15	2008.06.19	242,236,966	46.07	325,855,912	45.19
Director	Jueifang P. Chen (Representative of Kaohsiung City Government)	2011.06.16	2014.06.15	2005.03.15	242,236,966	46.07	325,855,912	45.19
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)	2011.06.16	2014.06.15	2009.06.18	242,236,966	46.07	325,855,912	45.19
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	113,507	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	325,855,912	45.19
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	29,361,446	4.07
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. Managing 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, Yusheng Development Corp., Yuan Xin Technology Materials Co., Ltd., Yangmingshan Tienlai Spring Resort.	None	None	None
Ruey-Tsang Lee (Representative of Kaohsiung City Government)	0	0	0	0	Director-general of National Property Administration, Ministry of Finance	Secretary-General, 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, KINPO Electronics Inc., AU Optronics Corporation, Taiwan Pelican Express Co., LTD.	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., 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	Chairman, Chu Long Bao Industry Co. Ltd. ; Partner Attorney, Yuan Chen Law Office ; Supervisor, Taiwan Wax Co., Ltd. , Taiwan Styrene Monomer Co., Hwang Yen Health Preserving business 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, Chengsin Manages Consultant, Chih Chin Financial Consulting Ltd., Shaung Tzu Xing International Development Co., Heng Fong Asset Management Co., Ltd. ; Supervisor, Evergreen Construction Corp.	None	None	None
Lai-Chuan Chang (Representative of Kaohsiung City Government)	0	0	0	0	Consultant, Kaohsiung City Government	Chairman, Yongyang Fire Control Safety Equipment Co., Ltd.	None	None	None
Yung-Yu Tsai (Representative of Jinn Her Enterprise Co., Ltd.)	0	0	0	0	President, Jinn Her Enterprise Co., Ltd.	Chairman, TAMRON Leisure Co., Ltd., TAMRON Construction Co., Ltd., RONTAM Leisure Co., Ltd., Jinn Her Enterprise Co., Ltd.; Director, Chin Shun Li Industry CO., Brighton-Best international (Taiwan) Inc., iPASS Corporation, Modern Plating Asian Pacific ; Supervisor, Jiin Chuen Construction Co., Ltd.	None	None	None
Yu-Hui Su	0	0	0	0	Accounting Doctor, Department and Graduate Institute of Business Administration, National Taiwan University	Director, CECI Engineering Consultants, Inc., Taiwan., Zhi Jiu Venture Capital Co., Ltd., Guanhua Venture Capital Co., Ltd. ; Supervisor, Chu Yi Industry Co., Ltd. Makalot Industrial Co., Ltd.	None	None	None
Shan-Hui Chang	0	0	0	0	Chairman, Wetec International CPAS.	Head of EnWise CPAs & Co., Kaohsiung Location; Director, Jin Youjian Health Management Consulting Co., Ltd., Chemical Industry CO., Ltd., Yung Chi Paint & Varnish Mfg. Co., Ltd. ; Supervisor, PANBIOTIC LABORATORIES, Thinking Electronic Industrial Co., Ltd., Gold Liancheng Resource Technology Corporation	None	None	None

Note : Above "Other Position" data is base on April 11, 2014.

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			✓	3
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



Name \ Criteria	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

2014.4.20

Title	Name	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
			Shares	%	Shares	%	Shares	%
President	Moan-Sheng Huang	2013.01.09	0	0	0	0	0	0
Exec. Vice President and Business Dept., General Manager	Jin-Ann Wang	2014.02.27	72,881	0.0101	0	0	0	0
Exec. Vice President and Risk Management Dept., and Research & Development Dept., Vice President and General Manager	Johnson Huang	2014.02.27	17,308	0.0024	0	0	0	0
Chief Auditor	Chung-Chen Lin	2011.01.18	23,516	0.0033	0	0	0	0
Counsel and Chief Secretary	Tsui-Mei Hsu	2014.02.27	83,557	0.0116	0	0	0	0
Business Administration Dept., Vice President and General Manager	Anna Hsu	2012.07.01	17,190	0.0024	0	0	0	0
Credit Management Dept., Vice President and General Manager	Ting-Lien Lin	2012.07.01	38,205	0.0053	0	0	0	0
Executive Administration Dept., and Human Resources Dept., Vice President and General Manager	Hwa-Jen Lee	2012.07.01	23,496	0.0033	0	0	0	0
Legal Affair Dept., Vice President and General Manager	Te-Chin Chou	2005.02.24	21,933	0.0030	0	0	0	0
Treasury Dept., Vice President and General Manager and OBU, General Manager	J.C. Shou-Jen Chen	2008.04.01	112,174	0.0156	0	0	0	0
Information Technology Dept., Vice President and General Manager	I-Fen Chen	2011.02.24	86,320	0.0120	0	0	0	0
Municipal Treasury Dept., General Manager	Mei-Ling Chen	2012.07.01	49,403	0.0069	0	0	0	0
International Banking Dept., General Manager	Shuen-Hua Chen	2012.09.07	16,805	0.0023	0	0	0	0
Trust Dept., General Manager	Jung-Tai Chang	2013.03.01	16,634	0.0023	0	0	0	0
Wealth Management Dept., General Manager	Yuan-Chin Shiang	2013.03.01	68,011	0.0094	0	0	0	0
Gangshan Benjhou Branch, General Manager	Ming-Hung Wu	2012.12.17	54,832	0.0076	0	0	0	0
Feng Shan Branch, General Manager	Tung-Chiang Sung	2013.03.01	19,493	0.0027	0	0	0	0
Chien Chin Branch, General Manager	Ying-Mien Hsu	2014.04.01	20,339	0.0028	0	0	0	0
San Min Branch, General Manager	Yi-Chen Yu	2014.04.01	21,604	0.0030	0	0	0	0
Tso Ying Branch, General Manager	Shu-Z. Chen	2014.04.01	16,943	0.0023	0	0	0	0
Hsiao Kang Branch, General Manager	Jin-Biau Tsai	2009.11.01	33,456	0.0046	0	0	0	0
Tao Yuan Branch, General Manager	Chuan- Pin Kao	2009.10.22	16,405	0.0023	0	0	0	0
Chien Chen Branch, General Manager	Yen-Ching Hsien	2014.04.01	32,180	0.0045	0	0	0	0



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Title	Name	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
			Shares	%	Shares	%	Shares	%
Yu Chang Branch, General Manager	Hueng-Fen Yen	2014.04.01	23,595	0.0033	0	0	0	0
Wan Nei Branch, General Manager	Chung-Hui Wang	2013.03.01	22,730	0.0032	0	0	0	0
Pin Tung Branch, General Manager	Chiu-Lan Hsu	2014.04.01	24,708	0.0034	0	0	0	0
Kwei Lin Branch, General Manager	Shiow-Lien Su	2012.10.31	83,678	0.0116	0	0	0	0
Liu Ho Branch, General Manager	Li-Wen Shi	2014.04.01	5,657	0.0008	2,855	0.0004	0	0
Nan Tze Branch, General Manager	Wei-Min Wu	2011.10.26	20,777	0.0029	0	0	0	0
Ku Shan Branch, General Manager	Trey-Shin Lee	2012.07.01	48,162	0.0067	937	0.0001	0	0
Chien Kuo Branch, General Manager	Hsien-Kuo Chen	2011.10.26	21,797	0.0030	72,317	0.0100	0	0
Chiu Ju Branch, General Manager	Shiu-Hui Liu	2011.03.07	20,590	0.0029	0	0	0	0
Yen Cheng Mini Branch, General Manager	Mei-Chu Chang	2014.04.01	34,448	0.0048	0	0	0	0
Tsao Ya Branch, General Manager	Ching-Tsan Chen	2011.10.26	21,829	0.0030	20,847	0.0029	0	0
Banciao Branch, General Manager	Te-Ching Wan	2011.10.26	41,407	0.0057	0	0	0	0
Tai Nan Branch, General Manager	Ming-Ta Yang	2011.10.26	15,436	0.0021	0	0	0	0
San To Branch, General Manager	Wen-Hau Sher	2014.04.01	22,983	0.0032	0	0	0	0
Da Fa Branch, General Manager	Chia-Hung Chen	2014.04.01	0	0	10,775	0.0015	0	0
Ta Chih Branch, General Manager	Don Huang	2012.09.07	23,243	0.0032	0	0	0	0
Tai Chung Branch, General Manager	Yeh-Shing Wang	2012.09.07	22,362	0.0031	0	0	0	0
Chi Chin Mini Branch, General Manager	Yao-Huan Lin	2014.04.01	19,914	0.0028	0	0	0	0
Nan Kaohsiung Branch, General Manager	Shih-Hung Huang	2014.04.01	2,649	0.0004	0	0	0	0
Dali Branch, General Manager	Wen-Lueh Su	2013.02.26	22,825	0.0032	0	0	0	0
Hsin Chu Branch, General Manager	Hsien- Chung Liao	2010.03.08	16,239	0.0023	0	0	0	0
Shih Fu Branch, General Manager	Chi-Jen Lin	2014.04.01	38,245	0.0053	1,323	0.0002	0	0
Chung Ho Branch, General Manager	Chuck Chen	2012.09.07	24,422	0.0034	0	0	0	0
Taipei Branch, General Manager	Aaron Ting	2012.09.07	21,817	0.0030	0	0	0	0
Min Cheng Branch, General Manager	Li-Hwa Chen	2012.04.03	72,317	0.0100	21,797	0.0030	0	0
Pei Kaohsiung Branch, General Manager	Pi-Jung Ko	2012.07.01	53,815	0.0075	0	0	0	0
Po Ai Branch, General Manager	Wei-Lin Hsu	2012.09.07	2,469	0.0003	0	0	0	0

Note: Exec. Vice President Yi-Jong Liou 2014.03.01 mandatory retirement ; Chun-Ching Ko 2014.2.27 reassignment to consultant.

Title	Name	Experience (Education)	Other Position	Managers who are Spouses or Within Two Degree of Kinship		
				Title	Name	Relation
President	Moan-Sheng Huang	General Manager and Chief, Landbank	None	None	None	None
Exec. Vice President and 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
Exec. Vice President and Risk Management Dept., and Research & Development Dept., Vice President and General Manager	Johnson Huang	Vice President and General Manager, Bank of Kaohsiung	Director, Kaohsiung Bank General Insurance Agency Co.,Ltd.	None	None	None
Chief Auditor	Chung-Chen Lin	Chief Auditor, Bank of Kaohsiung	None	None	None	None
Counsel and Chief Secretary	Tsui-Mei Hsu	Chief Secretary, Bank of Kaohsiung	Director, Kaohsiung Bank General Insurance Agency Co.,Ltd.	None	None	None
Counsel	Chun-Ching Ko	Exec. Vice President	Supervisor, Taiwan Finance Co.,Ltd	None	None	None
Business Administration Dept., Vice President and General Manager	Anna Hsu	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.	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



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Title	Name	Experience (Education)	Other Position	Managers who are Spouses or Within Two Degree of Kinship		
				Title	Name	Relation
Chien Chin Branch, General Manager	Ying-Mien Hsu	Deputy General Manager, Bank of Kaohsiung	None	None	None	None
San Min Branch, General Manager	Yi-Chen Yu	General Manager, Bank of Kaohsiung	None	None	None	None
Tso Ying Branch, General Manager	Shu-Z. Chen	Deputy 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	Yen-Ching Hsien	General Manager, Bank of Kaohsiung	None	None	None	None
Yu Chang Branch, General Manager	Hueng-Fen Yen	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	Chiu-Lan Hsu	Deputy 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	Li-Wen Shi	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	Mei-Chu Chang	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	Wen-Hau Sher	General Manager, Bank of Kaohsiung	None	None	None	None
Da Fa Branch, General Manager	Chia-Hung Chen	Deputy 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	Yao-Huan Lin	Deputy General Manager, Bank of Kaohsiung	None	None	None	None
Nan Kaohsiung Branch, General Manager	Shih-Hung Huang	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	Chi-Jen Lin	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 2013.1.1—2013.12.31

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)	11,040,000	11,040,000	0	0	1,041,517	1,041,517	1,580,680	1,580,680	3.26	3.26
Director	Yuan-Pei Chou (Representative of Kaohsiung City Government)										
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.)										

Note: 1. Allowances (D) included the rental fees of Chairman's Professional practice site, rental fees of business car and expenses of fuel. In addition, one driver was offered, whose remuneration was NT\$1,008,770.
 2. No actual retirement pension was given in 2013.



Corporate Governance Report

Unit: NT\$ in 2013.1.1 – 2013.12.31

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)	1,857,221	1,857,221	105,026	105,026	0	9,214	0	9,214	0	0
Director	Yuan-Pei Chou (Representative of Kaohsiung City Government)										
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.)										

Unit: NT\$ in 2013.1.1 – 2013.12.31

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)					382,000
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)	0	0	3.73	3.73	None
Director	Yuan-Pei Chou (Representative of Kaohsiung City Government)					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



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	Ruey-Tsang Lee, Li-Ming Hsu, Richard Lee, Jueifang P. Chen, Lai-Chuan Chang, Chien-Tsai Chao, Wen-Ching Yang, Yuan-Pei Chou	Ruey-Tsang Lee, Li-Ming Hsu, Richard Lee, Yuan-Pei Chou, Lai-Chuan Chang, Chien-Tsai Chao, Wen-Ching Yang, Jueifang P. Chen	Ruey-Tsang Lee, Li-Ming Hsu, Richard Lee, Yuan-Pei Chou, Lai-Chuan Chang, Chien-Tsai Chao, Wen-Ching Yang	Ruey-Tsang Lee, Li-Ming Hsu, Richard Lee, Yuan-Pei Chou, Lai-Chuan Chang, Chien-Tsai Chao, Wen-Ching Yang
2 million (included) ~ 5 million (uncluded)	Toong-Min Chen, Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su	Toong-Min Chen, Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su	Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su, Jueifang P. Chen	Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su, Jueifang P. Chen
5 million (included) ~ 10 million (uncluded)	—	—	Toong-Min Chen	Toong-Min Chen
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	13,662,197	13,662,197	15,633,658	16,015,658

Item	Ratio of Remunerations of Directors to Net Income after Tax (%)		Remarks
	BOK	Companies in the consolidate financial statements	
FY			<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>
2013	3.73	3.73	
2012	4.13	4.13	
Comparison	(0.40) (Explanation 5)	(0.40) (Explanation 5)	<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 directors to net income after tax was 3.73% in FY 2013 decrease by 0.40% compared to FY 2012, as a result of the bonus to directors for the year 2013 lower than 2012.</p>

B. Remuneration of Supervisors

Unit: NT\$ in 2013.1.1 – 2013.12.31

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	240,348	240,348	153,000	153,000	0.27	0.27		None
Supervisor	Shan- Hui Chang												None

Range of Remunerations

Unit: NT\$ in 2013.1.1 – 2013.12.31

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	1,113,348	1,113,348



FY	Ratio of Remunerations of Supervisors to Net Income after Tax (%)		Remarks
	BOK	Companies in the consolidate financial statements	
2013	0.27	0.27	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. 2. The Bank's standard and portfolio for payment of compensation: (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. (2) Distribution of earnings: subject to "the Bank's Articles of Incorporation", but independent directors are not eligible for the distribution. (3) Bonus to directors who are also employees shall be subject to the "Rules Governing Distribution of Bonus to the Bank's Staff". 3. The Bank's procedure for fixing compensation: to be enforced upon approval of the shareholders' meeting, compensation committee and board of directors. 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. 5. Percentage of remunerations of supervisors to net income after tax was 0.27% in FY 2013 decrease by 0.14% compared to FY 2012, as a result of the bonus to supervisors for the year 2013 lower than 2012.
2012	0.41	0.41	
Comparison	(0.14) (Explanation 5)	(0.14) (Explanation 5)	

C. Compensation of President and Vice President

Unit: NT\$ in 2013.1.1 – 2013.12.31

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	Moan-Sheng Huang	9,559,534	9,559,534	642,585	642,585	2,894,018	2,894,018	0	45,426	0	45,426
Exec. Vice President	Chun-Ching Ko										
Exec. Vice President	Yi-Jong Liou										
Chief Auditor	Chung-Chen Lin										

Note: 1. Bonuses and Allowances (C) included the rental fees of President's Professional practice site, rental fees of business car and expenses of fuel. In addition, one driver was offered, whose remuneration was NT\$ 946,179.

2. No actual retirement pension was given in 2013.

3. Exec. Vice President Yi-Jong Liou 2014.3.1 mandatory retirement; Chun-Ching Ko 2014.2.27 reassignment to consultant.

Unit: NT\$ in 2013.1.1 – 2013.12.31

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	Moan-Sheng Huang	3.14	3.14	0	0	0	0	None
Exec.Vice President	Chun-Ching Ko							186,000
Exec. Vice President	Yi-Jong Liou							84,000
Chief Auditor	Chung-Chen Lin							None

Range of Remunerations

Unit: NT\$ in 2013.1.1 – 2013.12.31

Range of Remunerations	Name of President and Vice Presidents	
	BOK	All investees (E)
under 2 million	None	None
2million (included) ~ 5 million (uncluded)	Moan-Sheng Huang, Chun-Ching Ko, Yi-Jong Liou, Chung-Chen Lin	Moan-Sheng Huang, 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	13,141,563	13,411,563

Item	Ratio of Remunerations of President & Exec. Vice President to Net Income after Tax (%)		Remarks
	BOK	Companies in the consolidate financial statements	
FY			
2013	3.14	3.14	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. 2. The Bank's standard and portfolio for payment of compensation: (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. (2) Distribution of earnings: subject to "the Bank's Articles of Incorporation", but independent directors are not eligible for the distribution. (3) Bonus to directors who are also employees shall be subject to the "Rules Governing Distribution of Bonus to the Bank's Staff". 3. The Bank's procedure for fixing compensation: to be enforced upon approval of the shareholders' meeting, compensation committee and board of directors. 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. 5. Percentage of remunerations of president & exec. vice president to net income after tax was 3.14% in FY 2013 decrease by 0.14% compared to FY 2012, as a result of the profit sharing-employee bonus for the year 2013 lower than 2012.
2012	3.28	3.28	
Comparison	(0.14) (Explanation 5)	(0.14) (Explanation 5)	



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D. Employees' bonuses to managers

Dec. 31, 2013

Unit: NT\$

Title		Name	Bonus - in Stock	Bonus - in Cash	Total	Ratio of Total Amount to Net Income (%)
Executive Officers	President	Moan-Sheng Huang	480,392	0	480,392	0.11
	Exec. Vice President	Chun-Ching Ko				
	Exec. Vice President	Yi-Jong Liou				
	Chief Auditor	Chung-Chen Lin				
	Chief Secretary	Tsui-Mei Hsu				
	Business Administration 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	Jung-Tai Chang				
	Wealth Management Dept., General Manager	Yuan-Chin Shiang				
	Gangshan Benjhou Branch, General Manager	Ming-Hung Wu				
	Feng Shan Branch, General Manager	Tung-Chiang Sung				
	Chien Chin Branch, General Manager	Wen-Hau Sher				
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	Yi-Chen Yu				
Wan Nei Branch, General Manager	Chung-Hui Wang				
Pin Tung Branch, General Manager	Shui-Hsing Kuo				
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	Shih-Hung Huang				
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				
Dali 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 be distributed to the officers as approved by the Board of Directors before the shareholders' meeting for proposal of distribution of earnings for 2013.



3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 9 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)	9	0	100.00	None
Independent Director and Managing Director	Wen-Yuan Lin	7	2	77.78	None
Managing Director	Ruey-Tsand Lee (Representative of Kaohsiung City Government)	8	1	88.89	None
Managing Director	Li- Ming Hsu (Representative of Kaohsiung City Government)	5	3	55.56	None
Independent Director	Mei-Yueh Ho	8	1	88.89	None
Independent Director	Tzen-Ping Su	9	0	100.00	None
Director	Richard Lee (Representative of Kaohsiung City Government)	9	0	100.00	None
Director	Yuan- Pei Chou (Representative of Kaohsiung City Government)	9	0	100.00	None
Director	Jueifang P. Chen (Representative of Kaohsiung City Government)	8	0	88.89	None
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)	6	3	66.67	None
Director	Wen-Ching Yang (Representative of Heng Fong Asset Management Co., Ltd.)	5	2	55.56	None
Director	Lai-Chuan Chang (Representative of Kaohsiung City Government)	7	1	77.78	None

Others:

1. The effort of directors in preventing a "conflict of interest":

(1) 11th board of directors' meeting of 11th term, Discuss the proposal of lifting the Non-compete restriction on Chairman Toong-Min Chen, Chairman Toong-Min Chen avoided participation in the discussion.

(2) 14th board of directors' meeting of 11th term, Discuss the two proposal of leasing the city-owned properties for business operation by the related party of Kaohsiung City Government, Related party Toong-Min Chen, Ruey-Tsand Lee, Chien-Tsai Chao, Yuan- Pei Chou, Richard Lee, Lai-Chuan Chang avoided participation in the discussion.

2. Progress assessment of the 2013 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", delete the "Rules for Board of the Bank of Kaohsiung" etc., in order to upgrade the functions and operations of the Board of Directors.

3.3.2 Attendance of Supervisors for Board Meetings

A total of 9 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	55.56	None
Supervisor	Yu-Hui Su	5	55.56	None
Supervisor	Shan-Hui Chang	7	77.78	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 2013.

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
Feb.26,2013	11th board of directors' meeting of 11th term	The Bank's 2012Q4 "Risk Assessment Report" is presented for approval. The message delivered by Supervisor Su Yu-Huei: We need to think deeply about the management implication of this report. According to the information listed in the report, the classification of Category A, B, and C remains meaningful. The high risk companies with a higher interest rate and have a relatively higher NPL.. In order to check the credit risk, it is suggested to find the highest and lowest interest rate of that group of companies from the average interest rate table in order to check on the credit risk.	Acknowledged by all of the present directors	It is to be processed by referring to the opinions of Supervisor Su.
Feb.26,2013	11th board of directors' meeting of 11th term	The Bank's converting to "International Financial Reporting Standards" (hereinafter referred to as "IFRSs") The message delivered by Supervisor Su Yu-Huei: Remind the Bank's credit units to pay attention to the construction, architecture, and retailing industry. There are relatively significant changes in revenue recognition (loyalty program, the percentage of completion method converted to the completed contract method, etc.) and the associated costs (marketing expenses, employee benefits, lease accounting, etc.).	Acknowledged by all of the present directors	It is to be processed tentatively by referring to the opinions of Supervisor Su.



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Apr.26,2013	12th board of directors' meeting of 11th term	The Bank's converting to "International Financial Reporting Standards" (hereinafter referred to as "IFRSs") The message delivered by Supervisor Su Yu-Huei: Recommend the Bank to closely observe the difference between the estimated budget and the actual figures of the last year. If the net income is thus affected, it is necessary to work harder to improve sales performance. In addition, the accounting treatment of Kaohsiung MRT has to be closely follow-up and observed.	Acknowledged by all of the present directors	Supervisor Su's comments shall be adopted.
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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 Corporate 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 45.19% 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: The Bank engaged Crowe Horwath CPAs as auditor in 2014. The CPAs and auditor of the firm do not act as a director, supervisor, or employee of the Bank; nor have 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 issued 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.

Item	Operation	The Difference from Corporate Governance Best Practice Principles for Banking Industry and Reason
C. Establishment of Communication Channels with Materially Related Parties		
The communication channels of the Bank and the related parties	<ol style="list-style-type: none"> 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.
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 Consultant and 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. 		



Item	Operation	The Difference from Corporate Governance Best Practice Principles for Banking Industry and Reason
<p>G. Important Information of Corporate Governance Practice of the Bank:</p> <ol style="list-style-type: none"> With investor related: The major shareholder of the Bank is Kaohsiung City Government, holding 45.19% of the Bank's shares. Its representative also performs his duty pursuant to the rules governing investment by Kaohsiung City Government in the Bank. Employee rights: Please refer to page 71 "Fulfillment of Labor Rights". Right of related parties: Please refer to page 31 "Establishment of Communication Channels with Materially Related Parties". Training record of directors and supervisors in 2013: Please refer to Page 39 appendix "Training record of directors and supervisors in 2013". Execution of risk management policies and risk measuring standards: Please refer to page 160~163 & 200~214 "This Bank's risk management systems". 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. 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, 2013. The Bank made a donation to political parties or stakeholders or a group of public welfare: Please refer to Page 70 "Social Responsibility and Moral Behavior of the Bank", In addition, the Bank has never made a donation to political parties or stakeholders. 		
<p>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. 2014.</p>		

3.3.5 Duty and Implementation of the Remuneration Committee

3.3.5.1 Members of the Remuneration Committee

position	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 Members of the Remuneration Committee
		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	
Independent Director	Mei-Yueh Ho			✓	3
Independent Director	Wen-Yuan Lin			✓	2
Independent Director	Tzen-Ping Su			✓	0

position	Name	Criteria	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.

- Not an employee of the Bank or any of its affiliates.
- 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 2013, 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	1	1	50.00	
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
A. Actualizing the Promotion of Corporate Governance Policies 1. Condition where the Bank sets forth Corporate Social Responsibility (CSR) policies or regulations and examines performance results from the implementation	The Bank has not set forth "Corporate Social Responsibility (CSR) Practice Principles" before Mar. 2014.	The Bank has not set forth "Corporate Social Responsibility (CSR) Practice Principles" before Mar. 2014.



Item	Operation	Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons
2. Condition where the Bank sets up full (part) time departments to promote the operation of corporate social responsibility	The Bank has not set up full (part) time departments to promote the operation of corporate social responsibility before Mar. 2014.	The Bank has not set up full (part) time departments to promote the operation of corporate social responsibility before Mar. 2014.
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>(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>	In accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” article 11.
B. Develop Sustainable Environment		
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	None.	The Bank has not devoted to enhancing the effective use of all resources before Mar. 2014.
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. 2014.
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	<p>1. Old lighting fixtures shall be replaced by T5 or LED energy-saving lighting fixtures and light tubes.</p> <p>2. Adopt inverter air conditioning equipment as permitted under installation environment.</p>	In accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” article 18.

Item	Operation	Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons
<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>	<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.</p>	<p>In accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” article 19.</p>
<p>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</p>	<p>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”.</p> <p>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.</p>	<p>In accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” article 21.</p>
<p>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.</p>	<p>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.</p>	<p>In accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” article 23.</p>
<p>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</p>	<p>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.</p>	<p>In accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” article 24.</p>



Item	Operation	Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons
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. 2014.
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. 2014.		
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 70” 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. 2014.</p>	<p>The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2014.</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. 2014.</p>	<p>The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2014.</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. 2014.</p>	<p>The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2014.</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. 2014.</p>	<p>The Bank has not set up full (part) time departments to promote the operation of ethical corporate management best practice before Mar. 2014.</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 the relevant accounting system and internal control system for substantiating the principles of integrity management; also, has it timely reviewed and amended for the compliance of all departments in order to prevent malpractice from occurring.</p> <p>2. The Bank's Internal Audit Unit has the implementation of the related accounting system and internal control system audited in accordance with regulations. There was not any major nonconformity but minor nonconformity found in the investigation in 2013. The Bank had follow-up and reviewed the corrective action performed for the said minor nonconformities, and reported to the Board of Directors on a regular basis in order to continue to oversee the company's business activities in conformity with the principles of business 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' 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. 2014.</p>
<p>2.Other means of disclosures adopted by the Bank 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. 2014.</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. 2014.</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. 2014.

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 2013

Period	Title	Name	Serves	Training Record		
				Class Name	Hours	Unit in Charge
Q1	Supervisor	Yu-Hui Su	Professor, Accounting Department of Soochow University	"The impact of IFRSs on specific industry analysis and conversion of financial statements to IFRSs analysis Seminar"	7	Finance and Economics Research and Education Foundation
Q2	Chairman	Toong-Min Chen	Chairman	"Directors and supervisors (including independent) Advanced Practice Seminar"-Directors and supervisors and cross-strait remittances analysis	3	Securities & Futures Institute
				Rules Governing insiders market manipulation by insiders and case study	3	Securities & Futures Institute
	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	Independent Director, Bank of Kaohsiung	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	The impact of the Personal Information Protection Act on the legal compliance of corporate governance, internal audit, and internal control	3	Chinese National Association of Industry and Commerce
	Supervisor	Yu-Hui Su	Professor, Accounting Department of Soochow University	Introduction of Japan's Annuity System and Annuity Trust Asset Implementation Practice Seminar	3	Trust Association of R.O.C.
Q3	Supervisor	Yu-Hui Su	Professor, Accounting Department of Soochow University	Section 1, corporate Governance trend seminar: the rock in the rain - the key role of the board of directors and supervisors	3	Taiwan Academy of Banking and Finance(TABF)
				Section 297 trust industry supervisors (including job) workshops	3	Taiwan Academy of Banking and Finance(TABF)
	Independent Director	Mei-Yueh Ho	Independent Director, Bank of Kaohsiung	The makeover of Taiwan Enterprises	3	Taiwan Corporate Governance Association
Q4	Director	Richard Lee	Partner Attorney, Yuan Chen Law Office	"Explore a new era of corporate governance, take the family-owned enterprises and SMEs development companies for an example"	3	Taiwan Corporate Governance Association
	Director	Yuan-Pei Chou	President, and Secretary General, Kaohsiung BAR Association	Section 2, introduction of the Latest Tax Act – a company should be concerned.	3	Taiwan Securities Association
	Director	Jueifang P. Chen	Senior Staff Officer, Bank of Kaohsiung	Section 2, introduction of the Latest Tax Act – a company should be concerned.	3	Taiwan Securities Association



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. 27, 2014

We, the Undersigned, hereby on behalf of Bank of Kaohsiung Co., Ltd. declared that during the period beginning Jan. 1, 2013 until Dec. 31, 2013, 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 *Chen Tong-min*

President *Huang Maan-sheng*

Chief Auditor *Lin Cheng-chen*

The Head Office's Legal Compliance Head

Liu Yi-jong

(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, 2013

Strengthening Item	Improvement Measures	Time Scheduled to Complete the Improvement.
<p>1.No effective internal control mechanism in some operations, or the operating process lack of containment, such as: the collected taxes by branch office is not booked online immediately, no “forced logout” mechanism after being in idling, and authorization not by the person in charge. The main checkpoints of the operating procedures should be re-examined, discussed, and improved.</p>	<p>The Bank’s review and corrective actions are summarized as follows:</p> <ol style="list-style-type: none"> 1. The collection of tax by branch office has been managed and controlled bywith the instant computer connection process since 3.25.2013, and the responsible unit is to have the cash checked weekly with a record documented by the designated staff. 2. The Bank has the “Terminal in Idling Forced Logout Suspended Trading Mechanism” planned in the “Front Desk Operation Integration Platform Construction Project” of the subsidiary’s branches’ new-generation terminal system, which is now developed and installed for online gradually. The improvement is expected to be completed by the end of March 2014. 3. The Bank has reiterated all precautionary matters, re-examined each operating procedure, screened checkpoints and reinforcement, and composed the Bank’s “Key Operation Control Point” chapter for the compliance of the business units. In addition, define the Business Management Unit’s tracking business unit key operation control point enforcement mechanism in order to keep track of the business operations continuously. 	<ol style="list-style-type: none"> 1. The Bank has adopted specific measures to strengthen control of the processes, in which, except for in addition to the “Terminal in Idling Forced Logout Suspended Trading Mechanism” is to be completed and gone online by the end of March 2014, the remaining nonconformities have been corrected. 2. The Audit Unit of the Bank will continue to oversee the implementation of corrective actions.



B. Independent Auditor's Report on Internal Control System

Crowe Horwath (TW) CPAs
Member Crowe Horwath International

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

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

Mar. 27, 2014

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, 2013 subject to generally accepted auditing standards. We have also examined the internal audit design and execution for business operation in FY 2013, 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, 2013.

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:

1. A former employee, Tseng ○○, who had suspected of misappropriating customers' deposits and was indicted by the prosecutor in accordance with Article 125.2 of the Banking Act, that is now in the court proceedings.
2. A former employee, Chi ○○, who had embezzled the deposits and fees of the customer for personal purposes and was indicted by the prosecutor in accordance with Article 125.2 of the Banking Act, that is now in the court proceedings.
3. A former employee, Huang ○○, who had used the name of relatives in vain for making loans and was indicted by the prosecutor in accordance with Article 125.2 of the Banking Act, that is now in the court proceedings.

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 Feb. 9, 2012.



- ii. Improvement:
 - (i) The Bank has notified all branches 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. Meanwhile included legal compliance system to strengthen the self-assessment-checklist item checklist, by keeping track and compliance of the Audit Office.
 - (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 ○○:
 - i. Penalty:

Former banking staff of the Bank, Chi ○○, 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 ○○, 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, Tseng ○○, was suspected of misappropriating customers' deposits. Please see Paragraph B.1 herein.
2. The former clerk Chi ○○, was embezzled of customers' deposits and fees. Please see Paragraph B. 3 herein.
3. The former clerk, Huang ○○, 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. The total amount of fraud amounted to NT\$50 million in the year.

2012.1.1.~2013.12.31

unit: NT\$ Thousand

No	Case Nature	corruption or unauthorized withdrawal	Up to Dec. 31, 2012 and 2013 the balance of recognized loss or recognized expenses.		
			Dec. 31, 2012	Dec. 31, 2013	Description
1	The former clerk, Tseng ○○, was suspected of misappropriating customers' deposits (misappropriating customers' deposits)	3,568	1,833	2,083	1. In addition, NT\$0.25 million was paid to the customer for damages on Jan.18.2013 and it was fully recognized as bad debt. 2. The total loss referred to the above amounted to NT\$2.083 million [The content of the event is the same as in B. 1] in preceding paragraphs.
2	The former clerk Chi○○, was embezzled of customers' deposits and fees. (misappropriating customers' deposits and fees)	3,013	3,000	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 ○○, Use the name of relatives in vain for making loans. (fraud, fabricated transactions, forged documents)	51,514	25,994	25,994	Amount of NT\$51.514 million was unpaid for unauthorized withdrawal up to Dec. 31, 2013. 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	31,077	



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

- i. The event that the former clerk, Huang ○○, 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, 2013. 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 2013 and up to March 2014

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

The Resolutions	The Execution of the Resolutions
A. Earnings distribution for FY 2012.	Earnings distribution for FY 2012, have been completed subject to the resolution.

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

Date	The Resolutions
Feb. 26, 2013	The Bank's auditor, "Chien Hsing CPA" has been renamed to "Crowe Horwath (TW) CPAs" since January 1, 2013 due to a merge. The 2013 audited financial statements, the tax certification and filing, and the 2012 internal control system audit and certification were resolved to be handled by the continuing CPA firm.
Mar. 28, 2013	The Bank's financial statements and consolidated financial statements of the Bank and its subsidiaries for the year ended Dec. 31, 2012, and audit certified by Crowe Horwath (TW) CPAs were ratified.
Apr. 26, 2013	The Bank's earnings distribution of 2012 (for the year ended on Dec. 31, 2012) was ratified.
Jun. 20, 2013	In order to strengthen the bank capital structure, in addition to the already through the issuance of subordinated bonds of NT\$ 2 billion through the issue of NT\$ 2 billion increase of NT\$ 4 billion.
Dec. 19, 2013	In order to strengthen the Bank's e-banking platform, the "Mobile Banking" service is offered with the first stage "Mobile banking operation prospectus" approved.

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 2013 and up to Mar. 2014:

Date	The Important Resolutions	The Summary of Objection
None	None	None

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 2013 and up to Mar. 2014:

Position	Name	Date of Employment	Date of Dismissal	Reason for Resignation or Dismissal
None	None	None	None	None

3.4 Information Regarding Fee

Range of Information Regarding Fee

2013.1.1 – 2013.12.31

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	2013.1.1~2013.12.31	None

Unit: NT\$ Thousand

Range of Amount	Fee Item	Audit Fee	Non-Audit Fee	Amount
under 2 million		None	315	315
2 million (included) ~ 4 million		2,500	None	2,500
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	2,500	0	0	0	315 (Note)	315	2013. 1.1~2013.12.31	None
	Ling-Wen Huang								

Note: Stated as "Non-Audit Fee – Others", NT\$315 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.	Situation	Related parties	CPA
	Voluntary termination of appointment		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	V	
	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 2013 and up to Mar. 2014.

3.7.1 Change of Shares

Title	Name	2013.1.1-2013.12.31		2014.1.1-2014.3.31	
		Change in Shareholding	Increase (decrease) on Pledged Shares	Change in Shareholding	Increase (decrease) on Pledged Shares
Director (Major Shareholder)	Kaohsiung City Government	5,761,695	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	5,910	0	0	0
Director	Heng Fong Asset Management co., Ltd.	2,007	0	0	0
Supervisor	Jinn Her Enterprise Co., Ltd.	2,148,098	0	3,091,000	0
Supervisor	Yu-Hui Su	0	0	0	0
Supervisor	Shan-Hui Chang	0	0	0	0
President	Moan-Sheng Huang	0	0	0	0
Exec. Vice President (Note 2)	Yi-Jong Liou	3,294	0	0	0
Exec. Vice President and Business Dept., General Manager	Jin-Ann Wang	4,150	0	0	0
Exec. Vice President and Risk Management Dept., and Research & Development Dept., Vice President and General Manager	Johnson Huang	3,079	0	0	0
Chief Auditor	Chung-Chen Lin	3,140	0	0	0
Counsel and Chief Secretary	Tsui-Mei Hsu	4,268	0	0	0
Counsel	Chun-Ching Ko	3,627	0	0	0
Business Administration Dept., Vice President and General Manager	Anna Hsu	3,165	0	0	0
Credit Management Dept., Vice President and General Manager	Ting-Lien Lin	3,380	0	0	0
Executive Administration Dept., and Human Resources Dept., Vice President and General Manager	Hwa-Jen Lee	3,378	0	0	0
Legal Affair Dept., Vice President and General Manager	Te-Chin Chou	2,881	0	0	0
Treasury Dept., Vice President and General Manager and OBU, General Manager	J.C. Shou-Jen Chen	4,726	0	0	0
Information Technology Dept., Vice President and General Manager	I-Fen Chen	4,191	0	0	0
Municipal Treasury Dept., General Manager	Mei-Ling Chen	3,446	0	0	0
International Banking Dept., General Manager	Shuen-Hua Chen	2,811	0	0	0



Corporate Governance Report

Title	Name	2013.1.1-2013.12.31		2014.1.1-2014.3.31	
		Change in Shareholding	Increase (decrease) on Pledged Shares	Change in Shareholding	Increase (decrease) on Pledged Shares
Trust Dept., General Manager	Jung-Tai Chang	2,829	0	0	0
Wealth Management Dept., General Manager	Yuan-Chin Shiang	3,822	0	0	0
Gangshan Benjhou Branch, General Manager	Ming-Hung Wu	3,074	0	0	0
Feng Shan Branch, General Manager	Tung-Chiang Sung	2,272	0	0	0
Chien Chin Branch, General Manager	Ying-Mien Hsu	2,388	0	0	0
San Min Branch, General Manager	Yi-Chen Yu	2,979	0	0	0
Tso Ying Branch, General Manager	Shu-Z. Chen	2,447	0	0	0
Hsiao Kang Branch, General Manager	Jin-Biau Tsai	3,438	0	0	0
Tao Yuan Branch, General Manager	Chuan- Pin Kao	2,235	0	0	0
Chien Chen Branch, General Manager	Yen-Ching Hsien	3,402	0	0	0
Yu Chang Branch, General Manager	Hueng-Fen Yen	3,077	0	0	0
Wan Nei Branch, General Manager	Chung-Hui Wang	2,730	0	0	0
Pin Tung Branch, General Manager	Chiu-Lan Hsu	2,090	0	0	0
Kwei Lin Branch, General Manager	Shiow-Lien Su	3,677	0	0	0
Liu Ho Branch, General Manager	Li-Wen Shi	2,700	0	0	0
Nan Tze Branch, General Manager	Wei-Min Wu	2,383	0	0	0
Ku Shan Branch, General Manager	Trey-Shin Lee	3,295	0	0	0
Chien Kuo Branch, General Manager	Hsien-Kuo Chen	2,849	0	0	0
Chiu Ju Branch, General Manager	Shiu-Hui Liu	2,685	0	0	0
Yen Cheng Mini Branch, General Manager	Mei-Chu Chang	2,835	0	0	0
Tsao Ya Branch, General Manager	Ching-Tsan Chen	2,444	0	0	0
Banciao Branch, General Manager	Te-Ching Wan	3,447	0	0	0
Tai Nan Branch, General Manager	Ming-Ta Yang	1,881	0	0	0
San To Branch, General Manager	Wen-Hau Sher	2,256	0	0	0
Da Fa Branch, General Manager	Chia-Hung Chen	1,886	0	0	0
Ta Chih Branch, General Manager	Don Huang	3,003	0	0	0
Tai Chung Branch, General Manager	Yeh-Shing Wang	3,075	0	0	0
Chi Chin Mini Branch, General Manager	Yao-Huan Lin	2,219	0	0	0

Title	Name	2013.1.1-2013.12.31		2014.1.1-2014.3.31	
		Change in Shareholding	Increase (decrease) on Pledged Shares	Change in Shareholding	Increase (decrease) on Pledged Shares
Nan Kaohsiung Branch, General Manager	Shih-Hung Huang	2,649	0	0	0
Dali Branch, General Manager	Wen-Lueh Su	2,799	0	0	0
Hsin Chu Branch, General Manager	Hsien- Chung Liao	2,674	0	0	0
Shih Fu Branch, General Manager	Chi-Jen Lin	3,359	0	0	0
Chung Ho Branch, General Manager	Chuck Chen	3,069	0	0	0
Taipei Branch, General Manager	Aaron Ting	3,170	0	0	0
Min Cheng Branch, General Manager	Li-Hwa Chen	3,426	0	0	0
Pei Kaohsiung Branch, General Manager	Pi-Jung Ko	3,526	0	0	0
Po Ai Branch, General Manager	Wei-Lin Hsu	2,469	0	0	0

Note1: Major shareholder, who owns more than 1% of the Bank's outstanding shares.

Note2: Exec. Vice President Yi-Jong Liou 2014.03.01 mandatory retirement.

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 2013 and up to the Mar. 2014 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 2013 and up to the Mar. 2014.



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

2014.4.20

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	325,855,912	45.19	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)	195,674	0.03	50,900	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. (Representative of Yung-Yu Tsai)	29,361,446	4.07	0	0	0	0	Yung-Yu Tsai	A person in charge
Chun-Chin Shih	19,041,349	2.64	15,597,332	2.16	0	0	Mei-Yuan Yu	Spouse
Mei-Yuan Yu	15,597,332	2.16	19,041,349	2.64	0	0	Chun-Chin Shih	Spouse
Neng Shuai Investment Co., Ltd. (Representative of Jiong-xi Dong)	9,860,998	1.37	0	0	0	0	None	None
Yung-Yu Tsai	7,368,414	1.02	3,368,923	0.47	0	0	Jinn Her Enterprise Co., Ltd.	A person in charge
China Life Insurance Co., Ltd. (Representative of Ming-Yang Wang)	6,969,524	0.97	0	0	0	0	None	None
Global Life Insurance Co., Ltd. (Representative of Jia-Ying Ye)	6,601,730	0.92	0	0	0	0	None	None
City Bank Taiwan was commissioned and management investor account of Dimension emerging market estimate fund	6,588,900	0.91	0	0	0	0	None	None
Chien-Fu Kan	5,838,000	0.81	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

2014.3.31

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	3.53179
Taiwan Futures Exchange Corporation	852,473	0.30000	—	—	852,473	0.30000
Taiwan Finance Corporation	51,616,500	10.00000	—	—	51,616,500	10.00000
Waterland Securities Co.,Ltd.	42,899,331	4.93684	—	—	42,899,331	4.93684
Taiwan Asset Management Corporation	7,500,000	0.56754	—	—	7,500,000	0.56754
Taiwan Financial Asset Services Co.,Ltd.	5,000,000	2.94118	—	—	5,000,000	2.94118
Kaohsiung Rapid Transit Corporation	643,031	0.23080	—	—	643,031	0.23080
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	271,615	0.08298	—	—	271,615	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



Capital Overview

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 2014	—	1,500,000,000	15,000,000,000	721,049,190	7,210,491,900	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	—	450,000,000	Initial capital	MOF, Tai-Tsai-Rong-No.18127 (Jul. 8, 1981)
1988	—	650,000,000	Capital increase NT\$200 million by cash	MOF, Tai-Tsai-Rong-No.770059046 (Feb. 26, 1988)
1989	—	850,000,000	Capital increase NT\$200 million by cash	MOF, Tai-Tsai-Rong-No.770430291 (Nov. 23, 1988)
1990	—	1,050,000,000	Capital increase NT\$200 million by cash	MOF, Tai-Tsai-Rong-No.800078016 (Mar. 2, 1991)
1994	—	1,534,740,000	1. Capital increase NT\$190 million by special reserve 2. Capital increase NT\$294 million and 740 thousand by cash	MOF, Tai-Tsai-Rong-No.84707685 (Mar. 27, 1995)
1996	—	2,153,079,500	Capital increase NT\$618 million and 339.5 thousand by cash	MOF, Tai-Tsai-Rong-No.84377510 (Sep. 6, 1995)
1997 (1997.06.04)	—	2,367,968,260	Capital increase NT\$214 million and 888.76 thousand by cash	MOF, Tai-Tsai-Rong-No.86056443 (Mar. 11, 1997)
1998 (1997.10.09)	—	3,867,968,260	Capital increase NT\$1.5 billion by cash (Public solicit)	MOF, Tai-Tsai-Rong-No.86164514 (Jun. 10, 1997)
1999 (1999.03.01)	—	4,486,843,180	Capital increase NT\$618 million and 874.92 thousand by special reserve	MOF, Tai-Tsai-Rong-No.87419912 (Dec. 30, 1998)
2002 (2002.08.19)	—	4,576,580,040	Capital increase NT\$89 million and 736.86 thousand by earnings	MOF, Tai-Tsai-Rong-No-0910030462 (Jul. 10, 2002)
2004 (2004.08.16)	—	5,034,238,040	Capital increase NT\$457 million and 658 thousand by capital reserve	MOF, Tai-Tsai-Rong-(2)-No.0930020109 (Jun. 28, 2004)
2005 (2005.06.23)	15,000,000,000	5,034,238,040	Register authorized capital	FSC, Jin-Kuan-Yin-(2)-No.0948010949 (Jul. 27, 2005)
2008 (2008.8.26)	15,000,000,000	5,257,981,950	Capital increase NT\$223 million and 743.9 thousand by earnings	FSC, Jin-Kuan-Cheng-(1)-No.0970032868 (Jul. 9, 2008)
2011 (2011.08.07)	15,000,000,000	5,869,475,790	1. Capital increase NT\$78 million and 869.72 thousand by earning 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	FSC, Jin-Kuan-Cheng-(1)-No.1000031062 (Jul. 13, 2011)
2011 (2011.10.26)	15,000,000,000	7,069,475,790	Capital increase NT\$1.2 billion by cash	FSC, Jin-Kuan-Cheng-(1)-No.1000040741 (Sep. 8, 2011)
2013 (2013.09.12)	15,000,000,000	7,210,491,900	1. Capital increase NT\$127 million and 250.56 thousand by earning 2. Capital increase NT\$13 million and 765.55 thousand by employees' bonuses	FSC, Jin-Kuan-Cheng-No.1020026476 (Jly.15, 2013)

C. Type of Stock

2014. 5

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Stocks	721,049,190	778,950,810	1,500,000,000	Listed on the TSE

4.1.2 Status of Shareholders

2014.4.20

Item	Government Agencies	Financial Institutions	Other Juridicial Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	3	4	50	22,133	75	22,265
Shareholding	327,130,648	15,298,720	51,841,841	290,571,362	36,206,619	721,049,190
Percentage	45.37	2.12	7.19	40.30	5.02	100.00

4.1.3 Shareholding Distribution Status

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

2014.4.20

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 – 999	8,183	1,777,263	0.25
1,000 – 5,000	7,933	21,795,425	3.02
5,001 – 10,000	2,196	14,764,886	2.05
10,001 – 15,000	1,293	15,622,835	2.17
15,001 – 20,000	571	9,763,609	1.35
20,001 – 30,000	765	18,228,440	2.53
30,001 – 50,000	501	19,275,647	2.67
50,001 – 100,000	384	26,184,899	3.63
100,001 – 200,000	214	28,956,768	4.02
200,001 – 400,000	109	29,892,212	4.15
400,001 – 600,000	42	20,249,501	2.81
600,001 – 800,000	20	13,769,227	1.91
800,001 – 1,000,000	12	10,474,058	1.45
Over 1,000,001	42	490,294,420	67.99
Total	22,265	721,049,190	100.00

B. Preferred Shares: None.



4.1.4 List of Major Shareholders

2014.4.20

Shareholders's Name	Shareholding	
	Shares	Percentage
Kaohsiung City Government	325,855,912	45.19
Jinn Her Enterprise Co., Ltd.	29,361,446	4.07
Chun-Chin Shih	19,041,349	2.64
Mei-Yuan Yu	15,597,332	2.16
Neng Shuai Investment Co. Ltd.	9,860,998	1.37
Yung-Yu Tsai	7,368,414	1.02
China Life Insurance Co., Ltd.	6,969,524	0.97
Global Life Insurance Co., Ltd.	6,601,730	0.92
Citi Bank Taiwan was commissioned and management investor account of Dimension emerging market estimate fund	6,588,900	0.91
Chien-Fu Kan	5,838,000	0.81

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	2012	2013	2014.3.31
Market Price Per Share (Note 1)	Highest		10.15	9.93	9.77
	Lowest		7.91	9.01	9.37
	Average		8.87	9.49	9.56
Net Worth Per Share (Note 2)	Before Distribution		14.91	14.91	15.13
	After Distribution		14.89	—	—
Earnings Per Share	Weighted Average Shares		706,947,579	720,246,199	721,049,190
	Diluted Earnings Per Share		0.65	0.58	0.19
	Adjusted Diluted Earnings Per Share		0.64	—	—
Dividends Per Share	Cash Dividend		0.02	0.02	—
	Stock Dividends	Dividends from Retained Earnings	0.18	0.06	—
		Dividends from Capital Surplus	0	0.20	—
	Accumulated Undistributed Dividends		0	0	—
Return on Investment	Price / Earnings Ratio (Note 3)		13.86	16.36	—
	Price / Dividend Ratio (Note 4)		443.50	474.50	—
	Cash Dividend Yield Rate (%) (Note 5)		0.23	0.21	—

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 131 for “Notes to Financial Statements VI 26 Retained Earnings and Dividend Policy”.
- B. The FY 2014 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\$0.26, total of NT\$0.28 per share to shareholders for FY 2013. 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 2014 Shareholders' Meeting on the Bank's Operating Performance and Earnings Per Share (EPS):

The 2014 shareholders' meeting will resolve to distribute stock dividends total of NT\$ 187.47 million, which means that the stock dividend ratio is 2.6% (26 new shares to 1,000 existing shares). The EPS after stock dividend distribution will be NT\$ 0.57. Compared with the basic EPS NT\$0.58 , 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 131 for “Notes to Financial Statements VI 26 Retained Earnings and Dividend Policy”.
- 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 2013 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\$ 5,127,460.
Directors' and supervisors' remuneration: NT\$ 1,281,865.
- (2) The amount distributed employees' stock bonus, and the percentage to after-tax net income plus total employees' bonus for FY 2013 is NT\$5,127,460 and 1.21% respectively.
- (3) Earnings per share after the distribution of employees' bonus and remuneration to directors and supervisors for FY 2013: EPS NT\$0.58.
- D. Earnings distribution to employees' bonus and remunerations to directors and supervisors for FY 2012 corresponded with the decision of the Board of Director.
(1) Earnings distribution for employee bonus for FY 2012: NT\$ 12,567,956.
(2) Remuneration to directors and supervisors appropriated from retained earnings for FY 2012: NT\$ 3,141,989.

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.



Unit : NT\$

Item	Subordinate debt (3)
Date & No Approved by the Central Competent Authority	FSC, Jin-Kuan-Yin-Guo-No.10200181590 (Jly. 9, 2013)
Date of Issuance	Aug. 6, 2013
Par	5 million
Place of Issuance and Trade	Republic of China
Currency	New Taiwan Dollars
Price of Issuance	100%
Total Amount	1.3 billion
Interest	Fixed rate 2.10%
Tenor	7 years, maturity date : Aug. 6, 2020
Senior / Subordinate debt	Subordinate debt
Guarantor	None
Trustee	None
Underwriter	SinoPac securities, Yuanta securities, MasterLink securities
Certified Lawyers	None
Certified Public Accountants	None
Certification Institution	None
Repayment	Repayment in lump sum upon maturity
Outstanding Balance	1.3 billion
Year 2012 Paid-in Capital	7.0 billion 69.47million 5 thousand 7 hundred and ninety
Year 2012 Total Stockholders' Equity	10.3 billion 63.23 million 1 thousand 7 hundred and fifty-eight .
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 (%)	51.16%
Whether Include Qualified Capital and the Corresponding Category	Tier 2
Credit Rating Agency, Date and Rating	Taiwan Ratings Corp. Ratings : twBBB-, Jly. 29, 2013.

Unit : NT\$

Item	Subordinate debt (4)
Date & No Approved by the Central Competent Authority	FSC, Jin-Kuan-Yin-Guo-No.10200181590 (Jly. 9, 2013)
Date of Issuance	Sep. 5, 2013
Par	1 million
Place of Issuance and Trade	Republic of China
Currency	New Taiwan Dollars
Price of Issuance	100%
Total Amount	0.7 billion
Interest	Fixed rate 2.10%
Tenor	7 years, maturity date : Sep. 5, 2020
Senior / Subordinate debt	Subordinate debt
Guarantor	None
Trustee	None
Underwriter	SinoPac securities, Yuanta securities
Certified Lawyers	None
Certified Public Accountants	None
Certification Institution	None
Repayment	Repayment in lump sum upon maturity
Outstanding Balance	0.7 billion
Year 2012 Paid-in Capital	7.0 billion 69.47million 5 thousand 7 hundred and ninety
Year 2012 Total Stockholders' Equity	10.3 billion 63.23 million 1 thousand 7 hundred and fifty-eight .
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 (%)	57.92%
Whether Include Qualified Capital and the Corresponding Category	Tier 2
Credit Rating Agency, Date and Rating	Taiwan Ratings Corp. Ratings : twBBB-, Aug. 29, 2013.



Unit : NT\$

Item	Subordinate debt (5)
Date & No Approved by the Central Competent Authority	FSC, Jin-Kuan-Yin-Guo-No.10200341440 (Dec. 10, 2013)
Date of Issuance	Mar. 25, 2014
Par	10 million
Place of Issuance and Trade	Republic of China
Currency	New Taiwan Dollars
Price of Issuance	100%
Total Amount	1.2 billion
Interest	Indicator Rate +0.85% Floating Interest Rate
Tenor	7 years, maturity date : Mar. 25, 2021
Senior / Subordinate debt	Subordinate debt
Guarantor	None
Trustee	None
Underwriter	SinoPac securities, Yuanta securities, MasterLink securities
Certified Lawyers	None
Certified Public Accountants	None
Certification Institution	None
Repayment	Repayment in lump sum upon maturity
Outstanding Balance	1.2 billion
Year 2013 Paid-in Capital	7.2 billion 10.49 million 1 thousand and 9 hundred.
Year 2013 Total Stockholders' Equity	10.9 billion 4.61 million 3 thousand 9 hundred and ten.
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 (%)	66.03%
Whether Include Qualified Capital and the Corresponding Category	Tier 2
Credit Rating Agency, Date and Rating	Taiwan Ratings Corp. Ratings : twBBB-, Dec. 20, 2013.

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.

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 2014, 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, Mobile Banking, etc.
Foreign Exchange Business	Export, Import, Outward and Inward Remittance, Foreign Currency Deposit, Foreign Currency Loans, and Payment Secured by Foreign Currency, 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.
Gold Passbook Business	Gold passbook single purchase, resale, withdraw; regular fixed purchase, resale and inter-account transfers and other services.

5.1.2 Weightings and Changes of Key Business Assets against Total Assets

Unit: NT\$ Million, %

Major Business	2013.12.31		2012.12.31	
	Amount	%	Amount	%
Total Assets	234,502	100.00	221,146	100.00
Consumer Banking Business	61,841	26.37	54,003	24.42
Corporate Banking Business	117,702	50.19	109,394	49.47



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

Unit: NT\$ Million, %

Item	2013.1.1-2013.12.31		2012.1.1-2012.12.31	
	Amount	%	Amount	%
Total Operating Revenue	5,171	100.00	5,177	100.00
Revenue on Loan Business	3,712	71.78	3,493	67.47
Revenue on Investing Business	680	13.15	825	15.94
Revenue on Wealth Management Business	334	6.46	295	5.70
Revenue on Deposit Business	30	0.58	24	0.46
Revenue on Foreign Exchange Business	23	0.44	23	0.44

5.1.4 Business Plan for 2014

1. Loans: Adjust the structure of loan portfolio, keep loan amount stable and increase profit high, and stress the importance of emphasize loan quality and quantity.
 - (1) Gradually reduce municipal loans to reduce the dependence on the city government, and increase profitability.
 - (2) Adjust the structure of assets portfolio and increase the average loan interest rate.
 - (3) Expand Increase foreign currency loans and increase the proportion of high-yield loans.
2. Deposits: Enhance deposits solicitation and embed operating base.
 - (1) Continuously expand increase the deposits and to increase the real estate loan amount granted in the Banking Act.
 - (2) Compete for core deposits and increase demand deposits, and to reduce funding cost.
 - (3) Strengthen the development of foreign currency exchange deposits to and provide a steady source of funds for foreign currency assets.
 - (4) Adjust the large amount deposit policy flexibly depending on the business needs and to secure the loan basis.
3. International financial business: Master offshore business development and enhance the profitability of international financial business.
 - (1) Take advantage of the cross-strait financial deregulation to compete for quality loan business and increase profits.
 - (2) Continuously stabilize overseas bond investment, increase interest income, and improve financial operation income.
4. Non-interest income business: Comprehensively develop commission related businesses and to increase profitability level.
 - (1) The fund and insurance service charge income commission are the two income engines source of wealth management.
 - (2) Combined with credit business to promote real estate trust and pre-sale house performance bond and to increase non-interest income.
 - (3) Strengthen the development of Develop import and export foreign exchange business to increase service charge commission income.

5. Information Systems: Improve operational efficiency and strengthen operation risk control.
 - (1) Construct front-desk operation integration platform, update terminal system function, and improve operational efficiency and security control.
 - (2) Develop mobile banking and introduce , corporate finance banking network and ,online banking function, and improve service quality.
 - (3) Initiate artificial statements computerization to enhance operational efficiency.
6. Organizational restructuring organization: Promote organizational reengineering and exercise To promote organization effectiveness.
 - (1) Strengthen front-desk marketing function and one-stop-shop sales service.
 - (2) Improve Increase the Bank's business income with the unified power and professional division of work.
7. Internal Control: Continuously improve the effectiveness of internal control and secure a comprehensive operation.
 - (1) Continuously strengthen review mechanism and substantiate self-auditing to prevent nonconformities.
 - (2) Each business unit shall strengthen the assistance and guidance to the business operation of the branches.

5.1.5 Market Analyses

1. Regions Where the Bank Operates

The bank focuses primarily on the domestic market. Until the end of 2013, the Bank has 40 business units (exclusive of OBU), 29 of which are located in Kaohsiung City, 1 in Pingtung City, Tainan City, Taoyuan City, and Hsinchu City, 2 in New Taipei City and Taichung 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

High housing prices stabilize wind everywhere, taxation units resorted store room tax, levy luxury tax, real estate tax reform fiction (including property tax, housing transaction tax, land tax) and to strengthen the focus of high-priced housing tax inspection, in order to reduce 2-3 2 years into prices, supervision units have the bankers stress testing, the future transaction will tend to cool the real estate market, strengthen the quality and control of credit risk will be more rigorous, real credit growth will be limited.

Financial Supervisory Commission, in response to network security of transactions, designed to develop third-party payment method, in addition to future network platform operators and other non-banking industry, banks can also apply concurrently the electronic payment services business; addition to individual rooms may not borrowing from abroad remittances open no real transactions, each remittance limit of NTD30,000. Electronic payment for the bank to open a new page in the development of space, and because of the non-financial sector who participate in the exchange, remittance and bank ATM debit transaction growth will be limited.

(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-two 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 45.19% 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. Small business size and weak bargaining power makes the Bank susceptible to market competition and lower interest margins.
- B. 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. Continue enhancing and adjusting asset and liability portfolio, in hopes of expanding the interest spread for deposits and generating income.
- B. 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	2012.12.31 Balance	2013.12.31 Balance	2014.03.31 Balance
Loans to SMEs	40,678	45,499	46,601
Tuition Loan	6,598	6,436	6,186
Simple Credit Loans	1,285	1,096	997
Specific Money Trusts Earmarked for Investing Foreign and Domestic Securities	18,730	16,946	16,911
Trust Assets	20,168	19,034	19,128

(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	2013	2012
Amount	0.66	0.66

(2) Results of R & D

Business Item	Financial Products
Deposit Business	Open "Gold Passbook" business.
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 2014.3.31

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.
- 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" and "trust of securitits".

(3) Deposit Business

- A. Upgrade the demand deposit weight, and improve deposit structure to reduce the Bank's working fund cost.
- B. Construct mobile banking electronic financial platform to meet the financial needs of customers anytime and anywhere, to develop customer relationships, and to enhance the Bank's competitiveness.

(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.
- C. Planned Hsinchu (including) six business locations north of the region, before the end of June 2014 after another designated foreign exchange banks offer business.

(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



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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. Upgrade the Bank's treasury centralized payment system software for Kaohsiung City Government. Replace the dynamic password card with natural person credentials. Simplify credential management operation.
- B. Work with the Finance Bureau of City Government to develop the fees and fines "bar coded payment form" process, to construct the "Treasury Service Network" on the Bank's website for the public to pay fees and dues conveniently in order to shorten teller's operating time and customer's waiting time.

(7) Electronic Banking

- A. In order to strengthen the Bank's electronic financial services platform, planning continue to promote "mobile banking."
- B. Planning the Bank's "mobile payment services," a new kind of business: with the Financial Information Service Co., LTD., National Credit Card Center of R.O.C , The Taiwan Clearing House leading builder of "PSP TSM platform," promote the Bank's mobile payment services, consolidating the original customer base, develop new customers can strengthen the security of the electronic financial transactions, improve business competitiveness, and can grasp the opportunities cum derivative improve the Bank's professional image.
- C. Planning a new generation of "Internet Banking System Builder" : integration of existing "Internet Banking" and "Corporate Finance Network" feature upgrades digital electronic financial services capabilities.

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) Electronic Banking

- A. With "mobile payment services," stage of development, Added electronic ticket payment services (such as: iPASS, EasyCard) and bonus points and other non-financial payment services.
- B. With market information and industry trends, digitization of electronic financial services to upgrade or develop.

5.2 Human Resources

5.2.1 Information of Employees for the Past Two Years & Up to Mar. 2014

Year		2012	2013	2014.3.31
Number of Employees (Person)		942	952	950
Average Age (Years old)		44.45	45.33	45.31
Average Years of Service (Year)		17.52	18.35	18.35
Level of Education (%)	Ph.D.	0.21	0.21	0.21
	Masters	11.79	13.66	13.58
	Bachelor's Degree	77.39	75.94	76.21
	Senior High School	9.55	9.14	9.05
	Below Senior High School	1.06	1.05	0.95
Name of Employees With Certificates, Licenses and Qualifications (person)	Securities Investment Analyst	6	5	5
	Securities Specialist	81	84	83
	Senior Securities Specialist	229	234	235
	Securities Investment Trust and Consulting Professionals	164	169	169
	Analysts of Futures Trading	1	1	1
	Futures & trust fund sale representatives	104	108	111
	Bill Finance Specialist	215	218	220
	Trust Supervisor	10	10	9
	Trust Manager	198	196	198
	Trust Operations Personnel	667	674	679
	Basic Test for Bank Internal Control	711	711	710
	Non-Life Insurance Agent	1	1	1
	Non-Life Insurance Broker	1	0	0
	Life (Investment Link) Insurance Sales Agents	772	700	769
	Non-Life Insurance Sales Agents	620	613	610
Certified Public Accountants	1	1	1	

5.2.2 Employees' Further Education and Training

1. 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 22 person-times in FY 2013.
2. 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 2013 are as follows:
 - (1) Internal Training (Include Commissioned Training): In 2013, 82 class-times of "Regulations Governing the training of the management and business personnel ." were offered and a total of 3,383 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 2013, we have sent a total of 458 person-times to participate in such training programs.
- (3) Overseas Educational Visits / Seminar : In FY 2013, 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 7 directors / supervisors including Chien-Sheng Hao to attend the corporate governance or financial professional programs in 2013, totaling 13 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, Included contributions to Taiwan Foundation for Children and Families, the “1st Daily Marching - 2013 Syinlu Charity Walk” campaign organized by Syinlu Social Welfare Foundation, the “2013 Spring Charity Road Running” event organized by Genesis Foundation, the “Mom, I love you – 20th National Top-10 Fabulous Moms Award” activity organized by Taiwan Disability-Free Association, the “Love for the Elderly – Loving Dragon Boat Festival” activity organized by Huashan Social Welfare Foundation, and “Love for the Elderly – Loving Chinese Moon Festival” activity organized by Huashan Social Welfare Foundation; sponsored the “HopeDelivery,” “Kaohsiung stipend,” and “Golden Snake Winter Charity Activity” organized by Kaohsiung Charity Federation, the “2013 Charity Love • Care for the Earth” activity organized by Kaohsiung Houjing Charity Association, the “2013 Community Volunteer Assembly & Fun Contest Activity” organized by Kaohsiung Women’s Healthcare Association, the “Community Political Propaganda and Volunteer Fraternity Seminar” organized by Hsin-Sha Community Development Association in Zuoying District, Kaohsiung City, the “2013 Siaogang Chinese Orchestra Celebrating Mother’s Day Celebration Activity” and “Blood Donation You and I Activity” organized by Kaohsiung Kong-An Compassion Association, the “Dragon Boat Festival, Loving Rice Dumpling Activity” organized by Kaohsiung Lotus Pond Culture and Tourism Association, the “Parenting Education and Chinese Moon Festival Parent-Children Fun Time Activity” organized by “Kaohsiung Aboriginal Occupation Right Association,” and the “2014 New Year’s Eve Gala” organized by Kaohsiung Yuren Culture and Education Association; also, blood donation activities are arranged in summer every year.

5.3.2 Assistance for Learning and Growth

The Bank had actively participated in sponsoring the “Parent-children Happy and Creative DIY Cake Decorating Activity” organized by Kaohsiung SOROPTIMIST International and the “2013 Kaohsiung Care ~ Happy Harbor” activity organized by Kaohsiung Association of Children and Youth Services.

5.3.3 Sponsor Art & Cultural and Physical Training Events

The Bank enthusiastically sponsored the “2013 4th National Kaohsiung Badminton Championship Cup” held by Badminton Association of Kaohsiung Municipal Athletic Federation, the “To Verdi ~ Opera Master Bicentennial Birthday Concert” organized by Taiwan Bel Canto Choir, “The 11th Taiwan National Ground Golf Cup” organized by the Republic of China Ground Golf Association, the “1st Kaohsiung Petrochemical Badminton Tournament Cup” organized by the National Environment Council Kaohsiung, the “Ocean Cup Croquet Tournament” organized by Kaohsiung Gateball Association, the “2013 Evergreen Cup National Croquet Tournament” organized by Kaohsiung Croquet Association, the “2013 Kaohsiung Mayor Cup and Fengshan 23rd Taiwan-Japan Ground Golf Tournament” organized by Kaohsiung Fengshan Ground Golf Association, and the “2013 Syinlu Charity Concert” organized by Syinlu Social Welfare Foundation.

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 IBM.
4. Signed an agreement with IBM for NTD server system disk drive asynchronous remote backup service. The updated data copies are stored in IBM backup room through fiber optic lines.
5. 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. 2014 : None.

5.5.3 Reponses to Current and Potential Disputes that May Occur in the Future : No dispute was occurred up to Mar. 31, 2014.



5.6 Important Contracts

Mar. 31, 2014

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, 2014	Credit card service	None
Outsourcing Contract	The Company and Hewlett-Packard Taiwan Ltd.	from: Apr. 1, 2014 to: Mar. 31, 2017	Data processing	None
Outsourcing Contract	The Company and An Feng Enterprise Corporation	from: Feb. 1, 2014 to: Jan. 31, 2015	ATM service	None
Outsourcing Contract	The Company and Li Pao Security Corporation	from: Feb. 1, 2014 to: Jan. 31, 2016	Cash escort service	None
Outsourcing Contract	The Company and Li Pao Security Corporation	from: Feb. 1, 2014 to: Jan. 31, 2015	Cash delivery Service	None
Outsourcing Contract	The Company and Chunghwa Post Co., Ltd., Taipei Post Office.	from: Jan. 1, 2014 to: Dec. 31, 2014	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, Public housing loan interest payment list and account statement of deposit.	None
Outsourcing Contract	The Company and CHUNG HWA Express Corp.	from: Dec. 17, 2013 to: Dec. 16, 2014	The Securities and other document are delivered among Chung Ho Branch , Ta Chih Branch , Tai Chung Branch , Gangshan Benjhou Branch and Taipei Branch.	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

Nature of Contract	Contracting Party	Duration of Contract	Major Contents	Restriction Clause
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
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 2013 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 — IFRSs (Consolidated)

Unit : NT\$ Million

Item	Year	2012~2014.3.31 Financial Summary		
		2012.12.31	2013.12.31	2014.3.31
Cash & cash equivalents, Due from the CBC and other banks		27,802	26,549	29,425
Financial assets at fair value through profit or loss		1,459	1,590	2,229
Available-for-sale financial assets – net		19,191	19,250	20,159
Derivative financial assets for hedging		0	0	0
Bills and bonds purchased under agreements to resell		4,968	3,461	8,118
Accounts receivable – net		931	758	902
Current income tax assets		31	20	20
Assets held for sale – net		0	0	0
Discounts and loans – net		162,044	178,261	169,862
Held-to-Maturity financial assets		0	0	758
Equity method's investments – net		0	0	0
Restricted assets		0	0	0
Other financial assets – net		1,624	1,566	1,557
Property and equipment – net		2,758	2,744	2,783
Investment property – net		0	0	0
Intangible assets – net		50	41	38
Deferred income tax assets – net		142	134	134
Other assets – net		58	59	91
Total assets		221,058	234,433	236,076
Due to CBC and other banks		11,936	15,025	12,801
Funds borrowed from CBC & banks		0	0	0
Financial liabilities at fair value through profit or loss		1	6	5
Derivative financial liabilities for hedging		0	0	0
Bills and bonds sold under agreements to repurchase		69	68	68
Accounts payable		3,957	2,747	2,270
Current income tax liabilities		7	10	21
Liabilities directly related to assets held for sale		0	0	0
Deposits and remittances		189,455	198,689	201,654
Bonds payable		4,000	6,000	7,200
Liabilities of preferred stocks		0	0	0
Other financial liabilities		152	139	131
Provisions		756	855	866
Deferred income tax liabilities		0	0	0
Other liabilities		181	145	149
Total liabilities	Before distribution	210,514	223,684	225,165
	After distribution	210,528	–	–
Equity Attributable to Shareholders of the Parent				
Ordinary share		7,069	7,210	7,210
Capital surplus		2,018	2,017	2,017
Retained earnings	Before distribution	1,354	1,608	1,743
	After distribution	1,340	–	–
Other equity		103	(86)	(59)
Treasury Stock		0	0	0
Non-controlling interests		0	0	0
Total equity	Before distribution	10,544	10,749	10,911
	After distribution	10,530	–	–

Note : 1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang.

2. Auditors' opinion: Unqualified opinion for FY 2012 and 2013.

3. The financial information listed above has been reviewed by the CPAs Shu-Man Tsai and Ling-Wen Huang for Q1 2014.

6.1.1.2 Condensed Balance Sheet — IFRSs (Individual)

Unit : NT\$ Million

Item	Year	2012~2014.3.31 Financial Summary		
		2012.12.31	2013.12.31	2014.3.31
Cash & cash equivalents, Due from the CBC and other banks		27,802	26,549	29,425
Financial assets at fair value through profit or loss		1,459	1,591	2,229
Available-for-sale financial assets – net		19,191	19,250	20,159
Derivative financial assets for hedging		0	0	0
Bills and bonds purchased under agreements to resell		4,968	3,461	8,118
Accounts receivable – net		943	769	913
Current income tax assets		31	20	20
Assets held for sale – net		0	0	0
Discounts and loans – net		162,044	178,261	169,862
Held-to-Maturity financial assets		0	0	758
Equity method's investments – net		79	59	73
Restricted assets		0	0	0
Other financial assets – net		1,624	1,566	1,557
Property and equipment – net		2,758	2,744	2,783
Investment property – net		0	0	0
Intangible assets – net		50	41	38
Deferred income tax assets – net		142	134	134
Other assets – net		55	57	89
Total assets		221,146	234,502	236,158
Due to CBC and other banks		11,936	15,025	12,801
Funds borrowed from CBC & banks		0	0	0
Financial liabilities at fair value through profit or loss		1	6	5
Derivative financial liabilities for hedging		0	0	0
Bills and bonds sold under agreements to repurchase		69	68	68
Accounts payable		3,954	2,744	2,267
Current income tax liabilities		1	6	14
Liabilities directly related to assets held for sale		0	0	0
Deposits and remittances		189,552	198,765	201,746
Bonds payable		4,000	6,000	7,200
Liabilities of preferred stocks		0	0	0
Other financial liabilities		152	139	131
Provisions		756	855	866
Deferred income tax liabilities		0	0	0
Other liabilities		181	145	149
Total liabilities	Before distribution	210,602	223,753	225,247
	After distribution	210,616	–	–
Equity Attributable to Shareholders of the Parent				
Ordinary share		7,069	7,210	7,210
Capital surplus		2,018	2,017	2,017
Retained earnings	Before distribution	1,354	1,608	1,743
	After distribution	1,340	–	–
Other equity		103	(86)	(59)
Treasury Stock		0	0	0
Non-controlling interests		0	0	0
Total equity	Before distribution	10,544	10,749	10,911
	After distribution	10,530	–	–

Note : 1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang.

2. Auditors' opinion: Unqualified opinion for FY 2012 and 2013.

3. The financial information listed above has been reviewed by the CPAs Shu-Man Tsai and Ling-Wen Huang for Q1 2014.



6.1.1.3 Condensed Balance Sheet—ROC GAAP (Consolidated)

Unit : NT\$ Million

Item	Year	2009~2012 Financial Summary			
		2009.12.31	2010.12.31	2011.12.31	2012.12.31
Cash & cash equivalents, Due from the CBC and other banks		25,035	28,890	26,975	27,802
Financial assets at fair value through income statement		2,127	1,104	1,616	1,460
Bills and bonds purchased under agreements to resell		3,895	2,791	5,878	4,967
Available-for-sale financial assets – net		3,822	5,094	11,748	19,137
Discounts and loans – net		138,261	162,194	166,216	162,044
Accounts receivable – net		790	977	971	962
Held-to-Maturity financial assets – net		5,396	7,695	5,567	0
Equity method's investments – net		0	0	0	0
Property and equipment cost		2,285	2,237	2,203	2,136
Intangible assets – net		70	59	63	50
Other financial assets – net		3,622	3,048	1,831	1,724
Other assets – net		809	748	771	751
Total assets		186,111	214,836	223,838	221,033
Due to CBC and other banks		10,548	12,606	11,512	11,936
Deposits and remittances		157,866	185,092	193,866	189,455
Financial liabilities at fair value through income statement		2	15	4	1
Bills and bonds sold under agreements to repurchase		214	141	103	69
Funds borrowed from CBC & banks, financial bonds payable		4,000	4,000	4,000	4,000
Liabilities of preferred stocks		0	0	0	0
Pension payable		221	253	305	354
Other financial liabilities		285	207	195	152
Other liabilities		3,541	2,963	3,489	4,160
Total liabilities	Before distribution	176,677	205,277	213,474	210,127
	After distribution	176,677	205,287	213,474	210,141
Ordinary share		5,258	5,258	7,069	7,069
Capital reserve		2,543	2,543	2,018	2,018
Retained earnings	Before distribution	1,658	1,785	1,278	1,664
	After distribution	1,658	1,775	1,278	1,650
Unrealized gain and loss on financial instruments		(24)	(26)	(3)	154
Cumulative Translation Adjustment		0	0	0	0
Other shareholders' equity		(1)	(1)	1	1
Total shareholders' equity	Before distribution	9,434	9,559	10,364	10,906
	After distribution	9,434	9,549	10,364	10,892

Note : The financial information listed above audited by the bank's independent auditors.

6.1.1.4 Condensed Balance Sheet—ROC GAAP (Individual)

Unit : NT\$ Million

Item	Year	2009~2012 Financial Summary			
		2009.12.31	2010.12.31	2011.12.31	2012.12.31
Cash & cash equivalents, Due from the CBC and other banks		25,035	28,890	26,975	27,802
Financial assets at fair value through income statement		2,127	1,104	1,616	1,460
Bills and bonds purchased under agreements to resell		3,895	2,791	5,878	4,967
Available-for-sale financial assets – net		3,822	5,094	11,748	19,137
Discounts and loans – net		138,261	162,194	166,216	162,044
Accounts receivable – net		790	989	981	974
Held-to-Maturity financial assets – net		5,396	7,695	5,567	0
Equity method's investments – net		45	55	63	79
Property and equipment cost		2,285	2,237	2,202	2,135
Intangible assets – net		70	59	63	50
Other financial assets – net		3,622	3,048	1,831	1,724
Other assets – net		809	748	769	749
Total assets		186,157	214,904	223,909	221,121
Due to CBC and other banks		10,548	12,606	11,512	11,936
Deposits and remittances		157,922	185,167	193,944	189,552
Financial liabilities at fair value through income statement		2	15	4	1
Bills and bonds sold under agreements to repurchase		214	141	103	69
Funds borrowed from CBC & banks, financial bonds payable		4,000	4,000	4,000	4,000
Liabilities of preferred stocks		0	0	0	0
Pension payable		221	253	305	354
Other financial liabilities		285	207	195	152
Other liabilities		3,531	2,956	3,482	4,151
Total liabilities	Before distribution	176,723	205,345	213,545	210,215
	After distribution	176,723	205,355	213,545	210,229
Ordinary share		5,258	5,258	7,069	7,069
Capital reserve		2,543	2,543	2,018	2,018
Retained earnings	Before distribution	1,658	1,785	1,278	1,664
	After distribution	1,658	1,775	1,278	1,650
Unrealized gain and loss on financial instruments		(25)	(27)	(2)	154
Cumulative Translation Adjustment		0	0	0	0
Other shareholders' equity		0	0	1	1
Total shareholders' equity	Before distribution	9,434	9,559	10,364	10,906
	After distribution	9,434	9,549	10,364	10,892

Note : The financial information listed above audited by the bank's independent auditors.



6.1.2. Condensed Statements of Income

6.1.2.1 Condensed Statements of Comprehensive Income — IFRSs (Consolidated)

Unit : NT\$ Million

Item	Year	2012~2014.3.31 Financial Summary		
		2012.1.1~ 2012.12.31	2013.1.1~ 2013.12.31	2014.1.1~ 2014.3.31
Interest income		3,990	4,159	1,091
Less: Interest expenses		(1,884)	(1,890)	(499)
Net interest income		2,106	2,269	592
Net Revenues Other Than Interest		602	668	179
Net revenue		2,708	2,937	771
Allowance for credit loss and loss on guarantees		(261)	(401)	(94)
Operating expenses		(2,009)	(2,057)	(521)
Income before tax – operating department		438	479	156
Income tax (expense) benefit		20	(60)	(21)
Net income – operating department		458	419	135
Net income – non-operating department		0	0	0
Net income (loss)		458	419	135
Other comprehensive income for the period(net of income tax)		142	(212)	27
Total comprehensive income for the period		600	207	162
Net income attributable to: Shareholders of the parent		458	419	135
Net income attributable to: Minority interest		0	0	0
Total comprehensive income for the period attributable to: Shareholders of the parent		600	207	162
Total comprehensive income for the period attributable to: Minority interest		0	0	0
Earnings per share		0.64	0.58	0.19

Note : 1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang.

2. Auditors' opinion: Unqualified opinion for FY 2012 and 2013.

3. The financial information listed above has been reviewed by the CPAs Shu-Man Tsai and Ling-Wen Huang for Q1 2014.

6.1.2.2 Condensed Statements of Comprehensive Income — IFRSs (Individual)

Unit : NT\$ Million

Item	Year	2012~2014.3.31 Financial Summary		
		2012.1.1~ 2012.12.31	2013.1.1~ 2013.12.31	2014.1.1~ 2014.3.31
Interest income		3,990	4,159	1,091
Less: Interest expenses		(1,884)	(1,890)	(499)
Net interest income		2,106	2,269	592
Net Revenues Other Than Interest		581	645	172
Net revenue		2,687	2,914	764
Allowance for credit loss and loss on guarantees		(261)	(401)	(94)
Operating expenses		(1,998)	(2,043)	(517)
Income before tax – operating department		428	470	153
Income tax (expense) benefit		30	(51)	(18)
Net income – operating department		458	419	135
Net income – non-operating department		0	0	0
Net income (loss)		458	419	135
Other comprehensive income for the period(net of income tax)		142	(212)	27
Total comprehensive income for The period		600	207	162
Earnings per share		0.64	0.58	0.19

Note : 1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang.

2. Auditors' opinion: Unqualified opinion for FY 2012 and 2013.

3. The financial information listed above has been reviewed by the CPAs Shu-Man Tsai and Ling-Wen Huang for Q1 2014.

6.1.2.3 Condensed Statements of Income — ROC GAAP (Consolidated)

Unit : NT\$ Million

Item	Year	2009~2012 Financial Summary			
		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 income		1,340	1,789	1,989	2,104
Net Revenues Other Than Interest		640	562	343	901
Credit loss expenses		(217)	(308)	(899)	(579)
Operating expenses		(1,712)	(1,831)	(1,854)	(1,997)
Income before tax — operating department		51	212	(421)	429
Income after tax — operating department		76	127	(433)	386
Non-operating department income(net of income tax)		0	0	0	0
Special income(net of income tax)		0	0	0	0
Cumulative effect of changes on accounting principles (net of income tax)		0	0	0	0
Net income (loss)		76	127	(433)	386
Earnings per share (NT\$)		0.15	0.22	(0.71)	0.55

Note : The financial information listed above audited by the bank's independent auditors.

6.1.2.4 Condensed Statements of Income — ROC GAAP (Individual)

Unit : NT\$ Million

Item	Year	2009~2012 Financial Summary			
		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 income		1,340	1,789	1,988	2,103
Net Revenues Other Than Interest		629	554	330	881
Credit loss expenses		(217)	(308)	(899)	(579)
Operating expenses		(1,709)	(1,829)	(1,848)	(1,986)
Income before tax — operating department		43	206	(429)	419
Income after tax — operating department		76	127	(433)	386
Non-operating department income(net of income tax)		0	0	0	0
Special income(net of income tax)		0	0	0	0
Cumulative effect of changes on accounting principles (net of income tax)		0	0	0	0
Net income (loss)		76	127	(433)	386
Earnings per share (NT\$)		0.15	0.22	(0.71)	0.55

Note : The financial information listed above audited by the bank's independent auditors.



6.2 Five-Year Financial Analysis

6.2.1 Financial Analysis

6.2.1.1 Financial Analysis— IFRSs (Consolidated)

Unit : NT\$ Million

Item	Year	2012~2014.3.31 Financial Summary		
		2012.1.1~ 2012.12.31	2013.1.1~ 2013.12.31	2014.1.1~ 2014.3.31
Operating Ability	Loans to deposits ratio (%)	85.79	89.97	84.54
	Ratio of NPL (%)	0.85	0.60	0.68
	Interest expenses to average deposit balances (%)	0.88	0.85	0.83
	Interest income to average loan balances (%)	2.08	2.15	2.21
	Total assets turnover ratio (times)	0.01	0.01	0.003
	Operating revenue per employee	2.86	3.06	0.81
	Earnings per employee	0.48	0.44	0.14
Profitability	Return on tier 1 capital (%)	—	4.75	—
	Return on total assets (%)	0.21	0.18	0.06
	Return on equity	4.47	3.94	1.24
	Net profit margin (%)	16.92	14.27	17.48
	Earnings per share (NT\$)	0.64	0.58	0.19
Financial Structure	Liabilities to assets ratio (%)	95.23	95.41	95.38
	Property, plant, and equipment as a percentage of equity (%)	26.16	25.53	25.51
Growth Rate	Asset growth rate (%)	—	6.05	—
	Earnings growth rate (%)	—	9.31	—
Cash Flow	Cash flow ratio (%)	Explanation	Explanation	52.59
	Cash flow adequacy ratio (%)	—	—	—
	Cash flow satisfied ratio (%)	Explanation	Explanation	9,388.84
Liquidity Reserve Ratio (%)		16.79	15.90	18.32
Total Secured Loans to Related Parties		1,063	1,069	930
Total Secured Loans to Related Parties as a Percentage of Total Loans (%)		0.62	0.58	0.53
Operating Scale	Asset market share (%)	0.56	0.54	0.53
	Equity market share (%)	0.43	0.39	0.39
	Deposit market share (%)	0.64	0.63	0.63
	Loan market share (%)	0.69	0.72	0.67

Explanation: Cash flow from operating activities was a net outflow.

Note: 1. The financial information listed above audited by the bank's independent auditors, Please refer to page 81 Note 1.

2. The aforementioned ratios are calculated as follows: Please refer to page 81 Note 2.

6.2.1.2 Financial Analysis— IFRSs (Individual)

Unit : NT\$ Million

Item		Year		
		2012~2014.3.31 Financial Summary		
		2012.1.1~ 2012.12.31	2013.1.1~ 2013.12.31	2014.1.1~ 2014.3.31
Operating Ability	Loans to deposits ratio (%)	85.79	89.97	84.54
	Ratio of NPL (%)	0.85	0.60	0.68
	Interest expenses to average deposit balances (%)	0.88	0.85	0.83
	Interest income to average loan balances (%)	2.08	2.15	2.21
	Total assets turnover ratio (times)	0.01	0.01	0.003
	Operating revenue per employee	2.85	3.06	0.81
	Earnings per employee	0.49	0.44	0.14
Profitability	Return on tier 1 capital (%)	4.35	4.67	—
	Return on total assets (%)	0.21	0.18	0.06
	Return on equity	4.47	3.94	1.24
	Net profit margin (%)	17.06	14.38	17.64
	Earnings per share (NT\$)	0.64	0.58	0.19
Financial Structure	Liabilities to assets ratio (%)	95.23	95.42	95.38
	Property, plant, and equipment as a percentage of equity (%)	26.15	25.52	25.51
Growth Rate	Asset growth rate (%)	(1.22)	6.04	—
	Earnings growth rate (%)	—	9.76	—
Cash Flow	Cash flow ratio (%)	Explanation	Explanation	52.60
	Cash flow adequacy ratio (%)	—	—	—
	Cash flow satisfied ratio (%)	Explanation	Explanation	9,388.35
Liquidity Reserve Ratio (%)		16.79	15.90	18.32
Total Secured Loans to Related Parties		1,063	1,069	930
Total Secured Loans to Related Parties as a Percentage of Total Loans (%)		0.62	0.58	0.53
Operating Scale	Asset market share (%)	0.56	0.54	0.53
	Equity market share (%)	0.43	0.39	0.39
	Deposit market share (%)	0.64	0.63	0.63
	Loan market share (%)	0.69	0.72	0.67

Explanation : Cash flow from operating activities was a net outflow.

Note : 1. The financial information listed 2012 department of the original visa in accordance with ROC GAAP data, change data re-prepared by CPA in accordance with IFRS, 2013 data for the CPA and Q1 2014 by CPA., excluding the information of operating scale.

2. The aforementioned ratios are calculated as follows :

(1) Operating Efficiency.

A. Loans to deposits ratio = Total loans / Total deposits.

B. Ratio of NPL = Total non-performing loans / Total loans.

C. Interest expenses to average deposit balances = Total expenses of deposit interests / Annual average deposit balances.

D. Interest Income to average loan balances = Total expenses of loan interests / Annual average loan balances.

E Total assets turnover ratio = Net revenue / Average total assets.



- F. Operating revenue per employee (note 6) = Net revenue / Total number of employees.
- G. Earnings per employee = Net income / Total number of employees.
- (2) Profitability.
- A. Return on Tier 1 capital = Income before tax / Average net Tier 1 capital.
- B. Return on total assets = Net income / Average total assets.
- C. Return on equity = Net income / Average total equity.
- D. Net profit margin = Net income / Net revenue.
- E. Earnings per share = (Profit and loss attributable to the parent company - Preferred stock dividends) / Weighted average outstanding shares (note 4).
- (3) Financial Structure.
- A. Liabilities to assets ratio = Total liabilities / Total assets.
- B. Property, plant, and equipment as a percentage of equity = Property, plant, and equipment / Net equity.
- (4) Growth Rate.
- A. Asset growth rate = (Current total asset - Last year's total asset) / Last year's total asset.
- B. Earnings growth rate = (Current earnings before tax - Last year's earnings before tax) / Last year's earnings before tax.
- (5) Cash Flows (note 7).
- A. 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).
- B. Cash flow adequacy ratio = Cash flows from operating activities in the last 5 Years / (Capital expenditure + cash dividends) in the last 5 Years.
- C. Cash flow satisfied ratio = Cash flows from operating activities / Cash flows from investing activities.
- (6) Liquidity Reserve Ratio = Current assets required by the CBC / Liabilities for which the various current reserve shall be provided.
- (7) Operating Scale.
- A. Asset market share = Total assets / Total assets of financial institutes which can operate deposits and loans business (note 5).
- B. Equity market share = Total equities / Total equities of financial institutes which can operate deposits and loans business.
- C. Deposit market share = Total deposits / Total deposits of financial institutes which can operate deposits and loans business.
- D. 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 :
- (1) Using weighted average shares of common stocks as the basis, instead of issued shares in end of year.
- (2) Any capital increases or treasury stocks trading shall consider its circulation period in calculating weighted average shares.
- (3) 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.
- (4) 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.
- (5) 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 :
- (1) Operational net cash flow represent the operational net cash inflow in the statement of cash flow.
- (2) Capital expenditures stand for the cash outflow of annual capital investment.
- (3) Cash dividend include dividend from common stocks and preferred stock.
- (4) Gross amount of property, plant, and equipment equal to the total amount of property, plant, and equipment before the deduction of accumulated depreciation.

6.2.1.3 Financial Analysis — ROC GAAP

Unit : NT\$ Million

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

Explanation : Cash flow from operating activities was a net outflow.

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 :

(1) Operating Efficiency.

- A. Loans to deposits ratio = Total loans / Total deposits.
- B. Ratio of NPL = Total non-performing loans / Total loans.
- C. Interest expenses to average deposit balances = Total interest expenses / Annual average deposit balances.
- D. Interest Income to average loan balances = Total interest income / Annual average loan balances.
- E. Total assets turnover ratio = Net revenue / total assets.
- F. Operating revenue per employee (note 6)= Net revenue / Total number of employees.
- G. Earnings per employee = Net income / Total number of employees.



- (2) Profitability.
 - A. Return on Tier 1 capital = $\text{Income before tax} / \text{Average total Tier 1 capital}$.
 - B. Return on total assets = $\text{Net income} / \text{Average total assets}$.
 - C. Return on equity = $\text{Net income} / \text{Average net shareholder equity}$.
 - D. Net profit margin = $\text{Net income} / \text{Net revenue}$.
 - E. Earnings per share = $(\text{Net income} - \text{Preferred stock dividends}) / \text{Weighted average outstanding shares (note 4)}$.
- (3) Financial Structure.
 - A. Liabilities to assets ratio = $\text{Total liabilities} / \text{Total assets}$.
 - B. Fixed assets to stockholders' equity ratio = $\text{Total fixed assets} / \text{Net stockholders' equity}$.
- (4) Growth Rate.
 - A. Asset growth rate = $(\text{Current total asset} - \text{Last year's total asset}) / \text{Last year's total asset}$.
 - B. Earnings growth rate = $(\text{Current earnings before tax} - \text{Last year's earnings before tax}) / \text{Last year's earnings before tax}$.
- (5) Cash Flows (note 7).
 - A. Cash flow ratio = $\text{Cash flows from operating activities} / (\text{Due to banks and drafts} + \text{commercial bills payable} + \text{financial liabilities at fair value through income statement} + \text{bills and bonds sold under repurchase agreements} + \text{accounts payable in 1 year})$.
 - B. Cash flow adequacy ratio = $\text{Cash flows from operating activities in the last 5 Years} / (\text{Capital expenditure} + \text{cash dividends})$ in the last 5 Years.
 - C. Cash flow satisfied ratio = $\text{Cash flows from operating activities} / \text{Cash flows from investing activities}$.
- (6) Liquidity Reserve Ratio = $\text{Current assets required by the CBC} / \text{Liabilities for which the various current reserve shall be provided}$.
- (7) Operating Scale.
 - A. Asset market share = $\text{Total assets} / \text{Total assets of financial institutes which can operate deposits and loans business (note 5)}$.
 - B. Equity market share = $\text{Total equities} / \text{Total equities of financial institutes which can operate deposits and loans business}$.
 - C. Deposit market share = $\text{Total deposits} / \text{Total deposits of financial institutes which can operate deposits and loans business}$.
 - D. Loan market share = $\text{Total loans} / \text{Total loans of financial institutes which can operate deposits and loans business}$.
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 :
 - (1) Using weighted average shares of common stocks as the basis, instead of issued shares in end of year.
 - (2) Any capital increases or treasury stocks trading shall consider its circulation period in calculating weighted average shares.
 - (3) 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.
 - (4) 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.
 - (5) 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 :
 - (1) Operational net cash flow represent the operational net cash inflow in the statement of cash flow.
 - (2) Capital expenditures stand for the cash outflow of annual capital investment.
 - (3) Cash dividend include dividend from common stocks and preferred stock.
 - (4) Gross amount of fixed asset equal to the total amount of fixed asset before the deduction of accumulated depreciation.

6.2.2 Capital Adequacy

6.2.2.1 Capital Adequacy— IFRSs (Consolidated)

Unit : NT\$ Thousand

Item		year	2013~2014.3.31 Capital adequacy	
			2013	2014.3.31
Capital	Common stock interests		10,100,154	10,221,478
	Additional tier 1 capital of non-common stock interests		0	0
	Tier 2 capital		3,665,056	4,324,323
	Capital		13,765,210	14,545,801
Risk weighted assets	Credit risks	Standardised approach	137,615,003	136,996,732
		Internal rating based approach (IRB)	—	—
		Asset securitization	1,772,752	1,688,450
	Operational risks	Basic indicator approach (BIA)	4,941,919	4,907,761
		Standardised approach / Optional Standardised approach	—	—
		Advanced approach	—	—
	Market risks	Standardised approach	3,177,928	4,304,988
		Internal model approach	—	—
	Risk weighted assets		147,507,602	147,897,931
	Capital adequacy ratio(%)			9.33%
Tier 1 capital as a percentage of risk weighted assets (%)			6.85%	6.91%
Common stock interests as a percentage of risk weighted assets (%)			6.85%	6.91%
Leverage ratio (%)			3.21%	3.24%

Note : 1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang.

2. Auditors' opinion: Unqualified opinion for FY 2012 and 2013.

3. The financial information listed above has been reviewed by the CPAs Shu-Man Tsai and Ling-Wen Huang for Q1 2014.

4. 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



6.2.2.2 Capital Adequacy— IFRSs (Individual)

Unit : NT\$ Thousand

Item		year	2013~2014.3.31 Capital adequacy		
			2013	2014.3.31	
Capital	Common stock interests		10,070,584	10,221,478	
	Additional tier 1 capital of non-common stock interests		0	0	
	Tier 2 capital		3,635,375	4,324,323	
	Capital		13,705,959	14,545,801	
Risk weighted assets	Credit risks	Standardised approach	137,624,108	136,996,732	
		Internal rating based approach (IRB)	—	—	
		Asset securitization	1,772,752	1,688,450	
	Operational risks	Basic indicator approach (BIA)	4,907,761	4,907,761	
		Standardised approach / Optional Standardised approach	—	—	
		Advanced approach	—	—	
	Market risks	Standardised approach	3,177,928	4,304,988	
		Internal model approach	—	—	
	Risk weighted assets			147,482,548	147,897,931
	Capital adequacy ratio(%)			9.29%	9.84%
Tier 1 capital as a percentage of risk weighted assets (%)			6.83%	6.91%	
Common stock interests as a percentage of risk weighted assets (%)			6.83%	6.91%	
Leverage ratio (%)			3.21%	3.24%	

- Note : 1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang.
 2. Auditors' opinion: Unqualified opinion for FY 2012 and 2013.
 3. The financial information listed above has been reviewed by the CPAs Shu-Man Tsai and Ling-Wen Huang for Q1 2014.
 4. 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

6.2.2.3 Capital Adequacy—ROC GAAP (Consolidated)

Unit : NT\$ Million

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

Note : 1. The financial information listed above audited by the bank's independent auditors.

2. 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 weighted assets = Tier 1 capital / Risk weighted assets
- (5) Tier 2 capital as a percentage of risk weighted assets = Tier 2 capital / Risk weighted assets
- (6) Tier 3 capital as a percentage of risk weighted assets = Tier 3 capital / Risk weighted assets
- (7) Common stock's equities as a percentage of total assets = Common stock's equities / Total assets



6.2.2.4 Capital Adequacy—ROC GAAP (Individual)

Unit : NT\$ Million

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

Note : 1. The financial information listed above audited by the bank's independent auditors.

2. 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 weighted assets = Tier 1 capital / Risk weighted assets

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

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

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

6.3 Supervisors' Report in the Most Recent Years

Supervisors' Report for Bank of Kaohsiung

Mar.28, 2014

The Board of Directors have compiled and submitted to the Bank's 2013 Financial Statements (including the consolidated and individual 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

Yu-Hui Su

Shan-Hui Chang

Shan-Hui, Chang.

Yung-Yu Tsai

TSA' yu yung

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



6.4 Financial Report for FY 2013

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

We have audited the accompanying consolidated balance sheets of Bank of Kaohsiung Co., Ltd. (the "Bank") and subsidiaries as of December 31, 2013 and 2012 and January 1, 2012 and the related consolidated statements of comprehensive income, changes in consolidated shareholders' equity and consolidated cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Bank of Kaohsiung Co., Ltd. and subsidiaries as of December 31, 2013 and 2012 and January 1, 2012, the financial performance and their cash flows for the years ended December 31, 2013 and 2012, in conformity with the "Regulations Governing the Preparation of Financial Reports by Public Banks", "International Financial Reporting Standards", "International Accounting Standards", interpretations and public announcements of interpretations endorsed by the Financial Supervisory Commission of the Republic of China and certain other guidelines issued by the authorities.

We have also audited the parent bank only financial statements of the Bank for the years ended December 31, 2013 and 2012, and have issued unqualified opinions thereon.

Crowe Horwath (TW) CPAs

CPA : Shu-Man Tsai Tsai Shu Man

CPA : Ling-Wen Huang HUANG LING WEN

Republic of China Mar. 27, 2014
Authorized: Jin-Kuan-Cheng-Shen-No.10200032833

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

BANK OF KAOHSIUNG CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012
AND JANUARY 1, 2012

A/C No.	ASSETS Accounts	Note	December 31, 2013		December 31, 2012		January 1, 2012	
			Amount	%	Amount	%	Amount	%
11000	Cash & cash equivalents	6.1	\$ 3,329,141	1	\$ 3,166,781	2	\$ 2,840,102	1
11500	Due from the Central Bank of China and other banks	6.2	23,220,274	10	24,635,414	11	24,134,482	11
12000	Financial assets at fair value through profit or loss	6.3	1,590,421	1	1,459,442	1	1,615,849	1
14000	Available-for-sale financial assets, net	6.4	19,249,602	8	19,191,095	9	11,802,316	5
12500	Bills and bonds purchased under agreements to resell	6.5	3,460,558	1	4,967,234	2	5,878,341	3
13000	Accounts receivable, net	6.6	757,500	—	930,886	—	937,525	—
13200	Current income tax assets	6.7	19,862	—	30,733	—	33,357	—
13500	Discounts and loans, net	6.9	178,261,475	77	162,044,345	73	166,215,870	74
14500	Held-to-Maturity financial assets, net	6.10	—	—	—	—	5,566,536	3
15500	Other financial assets, net	6.11	1,566,331	1	1,623,908	1	1,730,533	1
18500	Property and equipment, net	6.12	2,744,082	1	2,757,998	1	2,827,345	1
19000	Intangible assets, net	6.13	41,315	—	50,237	—	62,565	—
19300	Deferred income tax assets, net	6.8	133,821	—	141,926	—	94,960	—
19500	Other assets, net	6.14	58,981	—	57,555	—	58,915	—
10000	TOTAL		\$ 234,433,363	100	\$ 221,057,554	100	\$ 223,798,696	100

unit: NT\$ Thousand

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

(Continued)



Financial Information

BANK OF KAOHSIUNG CO., LTD. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2013 AND 2012 AND JANUARY 1, 2012

unit: NT\$ Thousand

A/C No.	LIABILITIES AND SHAREHOLDERS' EQUITY Accounts	Note	December 31, 2013		December 31, 2012		January 1, 2012	
			Amount	%	Amount	%	Amount	%
LIABILITIES								
21000	Due to Central Bank of China and other banks	6.15	\$ 15,024,665	6	\$ 11,935,679	5	\$ 11,511,596	5
22000	Financial liabilities at fair value through profit or loss	6.16	5,621	—	613	—	3,837	—
22500	Bills and bonds sold under agreements to repurchase	6.17	68,019	—	68,914	—	103,207	—
23000	Accounts payable	6.18	2,747,219	1	3,956,922	2	3,381,298	1
23200	Current income tax liabilities	6.7	9,811	—	7,301	—	5,392	—
23500	Deposits and remittances	6.19	198,689,944	85	189,455,479	86	193,866,022	87
24000	Bank debentures	6.20	6,000,000	3	4,000,000	2	4,000,000	2
25500	Other financial liabilities	6.21	138,703	—	152,116	—	195,150	—
25600	Provisions	6.22	855,490	—	756,216	—	685,481	—
29500	Other liabilities	6.24	144,849	—	181,037	—	103,424	—
20000	Total liabilities		\$ 223,684,321	95	\$ 210,514,277	95	\$ 213,855,407	95
SHAREHOLDERS' EQUITY								
31000	Equity Attributable to Shareholders of the Parent							
31101	Ordinary share	6.25	\$ 7,210,492	3	\$ 7,069,476	3	\$ 7,069,476	3
31500	Capital surplus	6.25	2,016,605	1	2,017,724	1	2,017,724	1
32000	Retained earnings							
32001	Legal reserve	6.25	1,393,756	1	1,277,895	1	1,642,841	1
32003	Special reserve	6.25	—	—	—	—	41,937	—
32005	Unappropriated earnings (to be offset against losses)	6.26	214,246	—	75,776	—	(780,278)	—
	Total retained earnings		\$ 1,608,002	1	\$ 1,353,671	1	\$ 904,500	1
32500	Other equity	6.25	(\$86,057)	—	\$102,406	—	(\$48,411)	—
30000	Total equity		\$ 10,749,042	5	\$ 10,543,277	5	\$ 9,943,289	5
	TOTAL		\$ 234,433,363	100	\$ 221,057,554	100	\$ 223,798,696	100

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu

BANK OF KAOHSIUNG CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

unit: NT\$ Thousand

A/C No.	Accounts	Note	2013.1.1~2013.12.31		2012.1.1~2012.12.31		Change%
			Amount	%	Amount	%	
41000	Interest income		\$4,159,339	142	\$3,989,935	147	4
51000	Less: Interest expenses		(1,890,012)	(64)	(1,883,548)	(70)	0
49010	Net interest income	6.27	\$2,269,327	78	\$2,106,387	77	8
	Net Revenues Other Than Interest						
49100	Commission and fee revenues, net	6.28	\$458,309	15	\$426,310	16	8
49200	Gain or loss on financial assets and liabilities at fair value through profit or loss	6.29	55,854	2	5,535	-	909
49300	Realized gain(loss) on available-for-sale financial assets	6.30	58,914	2	138,428	5	(57)
49400	Realized gain (loss) on held-to-maturity financial assets	6.31	-	-	269	-	(100)
49600	Foreign exchange gain (loss)		6,500	-	75,032	3	(91)
49700	Reversal of impairment loss on assets	6.32	(27,937)	(1)	(96,301)	(3)	(71)
49800	Other net non-interest income	6.33	116,298	4	52,391	2	122
	Net revenue		\$2,937,265	100	\$2,708,051	100	8
58200	Allowance for credit loss and loss on guarantees	6.34	(\$400,838)	(14)	(260,838)	(10)	54
58400	Operating expenses						
58500	Employee benefits	6.35	(\$1,388,129)	(47)	(\$1,365,101)	(50)	2
59000	Depreciation expenses and amortization	6.35	(75,075)	(3)	(78,564)	(3)	(4)
59500	Other business and administrative expenses	6.36	(594,104)	(20)	(565,252)	(21)	5
61001	Net income (loss) before income tax		\$479,119	16	\$438,296	16	9
61003	Income tax (expense) benefit	6.7	(60,014)	(2)	19,998	1	(400)
64000	Net income (loss)		\$419,105	14	\$458,294	17	(9)
	Other comprehensive income:						
65001	Exchange differences on translating the financial statements of foreign operations		\$9,475	-	(\$7,280)	-	230
65011	Unrealized (loss) gain on available-for-sale financial assets		(196,294)	(6)	156,893	5	(225)
65031	Actuarial gains and losses on defined benefit plans		(28,080)	(1)	(10,990)		156
65091	Income tax relating to the components of other comprehensive income		3,163	-	3,105	-	2
65000	Other comprehensive income for the period, net of income tax	6.25	(\$211,736)	(7)	\$141,728	5	(249)
66000	Total Comprehensive Income For The Period		\$207,369	7	\$600,022	22	(65)
	Net income (loss) attributable to:						
	Shareholders of the parent		\$419,105	14	\$458,294	17	(9)
	Minority interest		-	-	-	-	-
			\$419,105	14	\$458,294	17	(9)
	Total comprehensive income for the period attributable to:						
	Shareholders of the parent		\$207,369	7	\$600,022	22	(65)
	Minority interest		-	-	-	-	-
			\$207,369	7	\$600,022	22	(65)
67500	Earnings per share (NT\$):	6.37	After Income Tax		After Income Tax		
	Basic		\$0.58		\$0.64		

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu



BANK OF KAOHSIUNG CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

unit: NT\$ Thousand

Item	Capital Stock	Capital Surplus	Retained Earnings				Other Equity				Total	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences On Translating The Financial Statements Of Foreign Operations	Unrealized Gain (Loss) on Available-for-Sale Financial Assets	Other	Total		
BALANCE, JANUARY 1, 2012	\$7,069,476	\$2,017,724	\$1,642,841	\$41,937	(\$780,278)	\$904,500	\$	(\$48,932)	\$521	(\$48,411)	\$9,943,289	
Appropriation of prior year's earnings(Note 1)					364,946							
Legal reserve to offset deficit			(364,946)	(41,937)	41,937							
Special reserve to offset deficit					458,294	458,294					458,294	
Net income (loss)					(9,123)	(9,123)	(6,042)	156,893			141,728	
Other comprehensive income For the Year Ended Dec. 31, 2012												
Total comprehensive income for the period					\$449,171	\$449,171	(\$6,042)	\$156,893			\$600,022	
Other									(34)	(34)	(34)	
Total Changes			(\$364,946)	(\$41,937)	\$856,054	\$449,171	(\$6,042)	\$156,893	(\$34)	\$150,817	\$599,988	
BALANCE, DECEMBER 31, 2012	\$7,069,476	\$2,017,724	\$1,277,895	\$	\$75,776	\$1,353,671	(\$6,042)	\$107,961	\$487	\$102,406	\$10,543,277	
BALANCE, JANUARY 1, 2013	\$7,069,476	\$2,017,724	\$1,277,895	\$	\$75,776	\$1,353,671	(\$6,042)	\$107,961	\$487	\$102,406	\$10,543,277	
Stock dividends	13,765	(1,119)			(78)	(78)					12,568	
Appropriation of prior year's earnings(Note 2)												
Legal reserve			115,861		(115,861)							
Cash dividends					(14,139)	(14,139)					(14,139)	
Capital increase by capitalization of earnings	127,251				(127,251)	(127,251)						
Net income (loss)					419,105	419,105					419,105	
Other comprehensive income For the Year Ended Dec. 31, 2013							7,864	(196,294)			(211,736)	
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD					(23,306)	(23,306)						
Other					\$395,799	\$395,799	\$7,864	(\$196,294)			\$207,369	
Total Changes	\$141,016	(\$1,119)	\$115,861	\$	\$138,470	\$254,331	\$7,864	(\$196,294)	(33)	(\$188,463)	\$205,765	
BALANCE, DECEMBER 31, 2013	\$7,210,492	\$2,016,605	\$1,393,756	\$	\$214,246	\$1,608,002	\$1,822	(\$88,333)	\$454	(\$86,057)	\$10,749,042	

Note 1: Remuneration to directors and supervisors and employee bonus was both nil.

Note 2: Remuneration to directors and supervisors and employee bonus was NT\$4,710 thousand and \$18,850 thousand, respectively.

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu

BANK OF KAOHSIUNG CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

unit: NT\$ Thousand

Item	2013.1.1~2013.12.31	2012.1.1~2012.12.31
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) before income tax	\$479,119	\$438,296
Adjustments:		
Income and expenses that do not affect cash flow:		
Depreciation expenses	56,085	63,160
Amortization expenses	18,990	15,404
Allowance for or (reversal) of credit losses	539,667	565,312
Net (gain) or loss on financial assets and liabilities at fair value through profit or loss	(55,854)	(5,535)
Net interest income	(2,269,327)	(2,106,387)
Dividend income	(36,097)	(38,153)
Net changes in credit guarantees	36,300	15,000
Loss (gain) on disposal and scraping of property and equipment	1	(11,483)
Loss (gain) on disposal of investments	(58,914)	(138,697)
Loss on impairment of financial assets	27,937	96,301
Total income and expenses that do not affect cash flow:	(\$1,741,212)	(\$1,545,078)
Changes in operating assets and liabilities:		
Net changes in operating assets		
Increase in due from the Central Bank of China and other banks	\$641,988	(\$1,844,100)
(Increase) decrease in financial assets at fair value through profit or loss	(70,117)	158,718
Increase (decrease) in accounts receivable	129,534	31,174
Increase (decrease) in discounts and loans	(16,743,186)	3,626,019
Total net changes in operating assets	(\$16,041,781)	\$1,971,811
Net changes in operating liabilities		
Increase (decrease) in due to Central Bank of China and other banks	\$3,088,986	\$424,083
Increase (decrease) in bills and bonds sold under agreements to repurchase	(895)	(34,293)
Increase (decrease) in accounts payable	(1,177,782)	592,364
Increase (decrease) in deposits and remittances	9,234,465	(4,410,543)
Increase (decrease) in other financial liabilities	(13,413)	(43,034)
Increase (decrease) in provisions for employee benefits	32,117	44,745
Total net changes in operating liabilities	\$11,163,478	(\$3,426,678)
Total net changes in operating assets and liabilities	(\$4,878,303)	(\$1,454,867)
Total adjustments	(\$6,619,515)	(\$2,999,945)
Net cash provided by (used in) operations	(\$6,140,396)	(\$2,561,649)
Interest received	4,187,992	3,936,396
Dividends received	36,097	38,153
Interest paid	(1,909,363)	(1,900,288)
Income tax refunded (paid)	(35,365)	(19,330)
Net cash provided by (used in) operating activities	(\$3,861,035)	(\$506,718)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(\$20,833,324)	(46,061,448)
Disposal of available-for-sale financial assets	20,637,437	44,599,003
Acquisition of bond investments with no active market	(21,588)	-
Proceeds from redemption of matured debt securities with no active market	26,251	19,452
Acquisition of held-to-maturity financial assets	-	(958,956)
Disposal of held-to-maturity financial assets	-	102,373
Proceeds from redemption of matured held-to-maturity financial assets	-	792,380
Proceeds from capital reduction of financial assets carried at cost	25,000	-
Acquisition of property and equipment	(39,393)	(13,677)
Disposal of property and equipment	-	31,347
Acquisition of intangible assets	(8,141)	(764)
Increase in other financial assets	1,785	(626)
Increase in other assets	(3,608)	(1,205)
Net cash provided by (used in) investing activities	(\$215,581)	(\$1,492,121)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of bank debentures	\$2,000,000	\$ -
Increase in guarantee deposit received	2,289	940
Increase in other liabilities	-	77,583
Decrease in other liabilities	(38,477)	-
Distribution of cash dividends	(14,139)	-
Net cash provided by (used in) financing activities	\$1,949,673	\$78,523
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH & CASH EQUIVALENTS	\$9,475	(\$7,280)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(\$2,117,468)	(\$1,927,596)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	26,428,457	28,356,053
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$24,310,989	\$26,428,457
Composition of cash & cash equivalents:		
Cash and cash equivalents in consolidated balance sheets	\$3,329,141	\$3,166,781
Due from the Central Bank of China and other banks that meet the definition of cash & cash equivalents in IAS No.7	17,521,290	18,294,442
Bills and bonds purchased under agreements to resell that meet the definition of cash & cash equivalents in IAS No. 7	3,460,558	4,967,234
Cash and cash equivalents in consolidated statements of cash flows	\$24,310,989	\$26,428,457

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu



**BANK OF KAOHSIUNG CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
AND JANUARY 1, 2012**

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

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:

- (1) Agent for the Kaohsiung City Treasury.
- (2) Management of Kaohsiung Municipal Bond.
- (3) Other relevant commercial bank businesses authorized under the Banking Law.
- (4) Savings and trust operations.
- (5) Other relevant businesses authorized by the Central Competent Authority.

The Bank operates with five 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's 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 Subsidiaries included in the consolidated financial statements as of December 31, 2013 and 2012 and January 1, 2012 are listed as follows:

Investor	Name of Subsidiary	Main Business Activities	Shareholding %		
			Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
The Bank	Kaohsiung Bank Insurance Agency Co., Ltd.	Life insurance agency business	100%	100%	100%
The Bank	Kaohsiung Bank General Insurance Agency Co., Ltd	Property insurance agency business	100%	100%	100%

1.3 Subsidiaries not included in the consolidated financial statements: None.

1.4 The Bank and subsidiaries employ a total of 959 employees as of December 31, 2013, 948 employees as of December 31, 2012 and 945 employees as of January 1, 2012.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 27, 2014.

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

3.1 Material impact on consolidated financial statements resulted from adoption of new and revised International Financial Reporting Standards (“IFRS” henceforth), Amendments and Interpretations endorsed by the Financial Supervisory Commission (“FSC” henceforth): Not applicable as the Bank adopted the IFRS for the first time this year.

3.2 Effect of new and revised IFRS endorsed by the FSC but not yet adopted by the Bank:

The International Accounting Standards Board (“IASB”) published IFRS 9, “Financial Instruments” in November, 2009, which will take effect on January 1, 2013 (In December, 2011, the IASB extended the effective date to January 1, 2015. In November, 2013, the IASB made the announcement to remove the provision for compulsory adoption of the said standards by January 1, 2015 in order to allow the preparers of financial statements more sufficient time for the transition. As such, a new effective date has yet to be determined as of the annual report date.) This standard had been endorsed by the FSC; however, early adoption is not permitted, and companies shall follow the guidance in accordance with the 2009 version of the International Accounting Standards 39 Financial instruments (“IAS 39”). At the adoption of this new standard, it is expected that there will be certain impacts on the classification and measurement of financial instruments in the consolidated interim financial statements.

3.3 Effect of IFRSs issued by the IASB but not yet endorsed by the FSC:

(1) The followings are new standards and amendments issued by the IASB that are effective but not yet endorsed by the FSC. The application of the new standards and amendments should follow the regulations of the FSC and as such, the Bank and subsidiaries have not adopted those new standards and amendments:

New Standards, Amendments and Interpretations	Main Amendments	Effective Date Announced By IASB
Amendment to IFRS 1 and limited exemption from comparative IFRS 7, “Disclosures for First-time Adopters”	The amendment provides first-time adopters of IFRSs with the same transition relief that existing in IFRS 7, “Financial Instruments: Disclosures” and exempts first-time adopters from providing the additional comparative disclosures.	July 1, 2010
2010 improvements to IFRSs	Amendments to IFRS 1, IFRS 3, IFRS 7, IAS1, IAS 34 and IFRIC 13.	January 1, 2011
Amendments to IFRS 7, “Disclosures- Transfers of Financial Assets”	The amendment enhances qualitative and quantitative disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in transferred assets, existing at the reporting date.	July 1, 2011
Amendments to IFRS 1, “Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters”	When an entity's date of transition to IFRSs is on, or after, the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to IFRSs. First-time adopters shall apply the derecognition requirements in IAS 39, Financial Instruments: Recognition and Measurement”, prospectively from the date of transition to IFRSs, and they are allowed not to retrospectively recognise related gains on the date of transition to IFRSs.	July 1, 2011



New Standards, Amendments and Interpretations	Main Amendments	Effective Date Announced By IASB
Amendments to IAS 12, "Deferred Tax: Recovery of Underlying Assets"	The amendment gives a rebuttable presumption that the carrying amount of investment properties measured at fair value is recovered entirely by sale, unless there exists any evidence that could rebut this presumption. The amendment also replaces SIC 21, "Income Taxes- Recovery of Revalued Non-Depreciable Assets".	January 1, 2012
IFRS 10, "Consolidated Financial Statements"	The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where it is difficult to assess.	January 1, 2013
IFRS 11, "Joint Arrangements"	When deciding the types of joint arrangements-joint operations and joint ventures, the entity should assess the contract rights and obligations instead of the legal form only. The standard also prohibits the proportional consolidation for joint ventures.	January 1, 2013
IFRS 12, "Disclosure of Interest in Other Entities"	The standard requires the disclosure of interests in other entities including subsidiaries , joint arrangements, associates and unconsolidated structured entities.	January 1, 2013
IAS 27, "Separate Financial Statements"	The standard removes the requirements of consolidated financial statements from IAS 27 and those requirements are addressed in IFRS 10, "Consolidated Financial Statements".	January 1, 2013
IAS 28, "Investments in Associates and Joint Ventures"	As consequential amendments resulting from the issuance of IFRS 11, "Joint Arrangements", IAS 28 (revised) sets out the requirements for the application of the equity method when accounting for investments in joint ventures.	January 1, 2013
IFRS 13, "Fair Value Measurement"	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.	January 1, 2013

New Standards, Amendments and Interpretations	Main Amendments	Effective Date Announced By IASB
IAS 19 revised, "Employee Benefits"	The revised standard eliminates corridor approach and requires actuarial gains and losses to be recognised immediately in other comprehensive income. Past service costs will be recognised immediately in the period incurred. Net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability, replace the finance charge and expected return on plan assets. The return of plan assets, excluding net interest expenses, is recognised in other comprehensive income.	January 1, 2013
Amendments to IAS 1, "Presentation of Items of Other Comprehensive Income"	The amendment requires profit or loss and other comprehensive income (OCI) to be presented separately in the statement of comprehensive income. Also, the amendment requires entities to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss subsequently.	July 1, 2012
IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine"	Stripping costs that meet certain criteria should be recognised as the "stripping activity asset". To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with IAS 2, "Inventories".	January 1, 2013
Amendments to IFRS 7, "Disclosures- Offsetting Financial Assets and Financial Liabilities"	The amendment requires disclosures to include quantitative information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements.	January 1, 2013
Amendment to IFRS 1, "Government Loans"	The amendment provides exception to first-time adopters to apply the requirements in IFRS 9, "Financial Instruments", and IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance", prospectively to government loans that exist at the date of transition to IFRS.	January 1, 2013
Improvements to IFRSs 2009-2011	Amendments to IFRS 1 and IAS 1, IAS 16, IAS 32 and IAS 34.	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	The amendment clarifies that the date of initial application is the first day of the annual period in which IFRS 10, 11 and 12 is adopted.	January 1, 2013



(2) The followings are new standards and amendments issued by the IASB that are not effective and not yet endorsed by the FSC. The application of the new standards and amendments should follow the regulations of the FSC and as such, the Bank and subsidiaries have not adopted those new standards and amendments:

New Standards, Amendments and Interpretations	Main Amendments	Effective Date Announced By IASB
IFRS 9, 'Financial Instruments: Classification and measurement of financial liabilities'	IFRS 9 requires gains and losses on financial liabilities designated at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which shall be presented in other comprehensive income, and cannot be reclassified to profit or loss when derecognizing the liabilities; and all other changes in fair value are recognized in profit or loss. The new guidance allows the recognition of the full amount of change in the fair value in the profit or loss only if there is reasonable evidence showing on initial recognition that the recognition of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch (inconsistency) in profit or loss. (That determination is made at initial recognition and is not reassessed subsequently.)	Not yet announced (Note)
IFRS 9, "Financial Instrument: Hedge Accounting" and amendments to IFRS 9, IFRS 7 and IAS 39	<ol style="list-style-type: none"> 1. Relax the criteria for classification of hedged items and hedging instruments and remove the highly effective standard to ensure the applicability of hedging accounting in corporate risk management activities. 2. Permits separate, early adoption of the provisions governing presentation of the change in the fair value of financial liabilities designated at fair value through profit or loss that is attributable to changes in the credit risk of the liability in "other comprehensive income". 	Net yet announced (Note)
Contributions from employees or third parties that are linked to service (Amendment to IAS 19)	The revised standard permits recognition of the amount of the contributions from employees or third parties that are linked to service but independent of the number of years of service as a reduction in the service cost in the period in which the related service is rendered. For contributions that are dependent on the number of years of service shall be amortised in the same manner as the defined benefit plan in the period in which the service is rendered.	July 1, 2014
Improvements to IFRSs 2010-2012	Amendments to IFRS 2, IFRS 3, IFRS, 8 and IFRS 13 and IAS 16, IAS 24 and IAS 38.	July 1, 2014
Improvements to IFRSs 2011-2013	Amendments to IFRS 1, IFRS 2 and IFRS 13 and IAS 40.	July 1, 2014
Amendment to IAS 32, "Offsetting Financial Assets and Financial Liabilities"	The amendment clarifies the criterion set out in IAS 32 that an entity "currently has a legally enforceable right to set off the recognised amounts" and "gross settlement mechanisms with features that are effectively equivalent to net settlement".	January 1, 2014

New Standards, Amendments and Interpretations	Main Amendments	Effective Date Announced By IASB
Amendment to IFRS 7 and IFRS 9- mandatory effective date and transition disclosures	The mandatory effective date has been postponed to January 1, 2015	Not yet announced (Note)
IFRS 14, "Regulatory Deferral Accounts"	It permits first-time adopters of IFRS to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS, IFRS 14 requires that the effect of recognising the deferred account balances that arise from rate regulation must be presented separately from other items.	January 1, 2016
Amendments to IFRS 10, IFRS 12 and IAS 27- Investment Entities	The amendments define "Investment Entities" and their characteristics. The parent company that meets the definition of investment entities should measure subsidiaries using fair value through profit or loss instead of consolidating them.	January 1, 2014
IFRIC 21, "Levies"	The interpretation addresses the accounting for levies imposed by governments in accordance with legislation (other than income tax). A liability to pay a levy shall be recognised in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets".	January 1, 2014
Amendments to IAS 36, "Recoverable Amount Disclosures For Non-Financial Assets"	The amendments remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or intangible assets with indefinite useful lives that were not impaired.	January 1, 2014
Amendments to IAS 39, "Novation of Derivatives and Continuation of Hedge Accounting"	The amendments state that the novation of a hedging instrument would not be considered an expiration or termination giving rise to the discontinuation of hedge accounting when the hedging instrument that is being novated complies with specified criteria.	January 1, 2014

(Note): See explanations in 3.2.

- (3) The Bank and subsidiaries are in the process of assessing the potential impact of the new standards and amendments above and has not yet been able to reliably estimate their impact on the consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the period presented, unless otherwise stated.

4.1 Statement of Compliance

- (1) These consolidated financial statements are the first consolidated financial statements prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks".
- (2) In preparation of the consolidated balance sheet as of January 1, 2012 (the date on which the Bank and subsidiaries transit to IFRSs), the Bank has adjusted the amounts that were reported in the consolidated financial statements in accordance with the previous G.A.A.P. of the R.O.C. Please refer to Note 18 for the effects of transitioning from the G.A.A.P. of the R.O.C. to the International



Financial Reporting Standards, International Accounting Standards, and Interpretations/bulletins as endorsed by the FSC (collectively referred herein as the “IFRSs” on the Bank’s financial position, operating results and cash flows.

4.2 Basis of Preparation

- (1) Except for the following items, these consolidated statements have been prepared under the historical cost convention:
 - A. Financial instruments (including derivative instruments) at fair value through profit or loss.
 - B. Defined benefit liabilities recognised based on the net amount of pension fund assets plus unrecognised prior period's service cost and unrecognised actuarial losses, less unrecognised actuarial gains and present value of defined benefit obligation.
- (2) Expenses incurred by the Bank and subsidiaries are analysed and classified by their nature.
- (3) The economic activities of the Bank and subsidiaries are classified into operating activities, investing activities and financing activities based on judgement by the management. Changes in cash and cash equivalents in the current period are reported in the cash flow statements in the categories of operating, investing and financing activities. Please refer to Note 6.1 for composition of the items that make up the cash and cash equivalents account.

The cash flow information for operating activities is compiled using the indirect method. The indirect method adjusts accrual basis net profit (or loss) for the effects of non-cash transactions, deferrals or accruals arising from any past or future cash from or used in operating activities and revenues or expenses associated with investing or financing cash flows. Interest paid and received and dividend received are classified as operating cash flows. Dividends paid are financing costs and are thus classified as financing cash flows.
- (4) The preparation of financial statements in conformity with IFRSs requires the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the consolidated financial statements are disclosed in Note 5.

4.3 Foreign Currency Translation:

- (1) Functional and Presentation Currency

Items included in the consolidated financial statements of the Bank and subsidiaries (including the Head Office, domestic branches, offices and the OBU) are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in “New Taiwan Dollars” , which is the functional currency of the Bank’s Head Office and domestic branches and offices.
- (2) Foreign Currency Transactions and Balances

The transactions denominated in foreign currency or to be settled in foreign currency are translated into a functional currency at the spot exchange rate between the functional currency and the underlying foreign currency on the date of the transaction.

Foreign currency monetary items are reported using the closing rate (market exchange rate) at the date of each balance sheet. Foreign currency non-monetary items measured at historical cost are reported using the exchange rate at the date of the transaction. Foreign currency non-monetary items measured at fair value are reported at the rate that existed when the fair values were determined.

Exchange differences arising when foreign currency transactions are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized or in previous financial statements are reported in profit or loss in the period, with one exception. The exception is that exchange differences associated with the gains or losses of the parts of effective hedges of cash flow hedges or hedges of net investments in foreign operations are recognized in other comprehensive income.

If a gain or loss on a non-monetary item measured at fair value is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income. If a gain or loss on a non-monetary item measured at fair value is

recognized in profit or loss, any foreign exchange component of that gain or loss is also recognized in profit or loss.

The operating results and financial position of the Bank's OBU in the consolidated financial statements that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

- A. Assets and liabilities presented are translated at the Company's and its subsidiaries' closing exchange rate at the date of that balance sheet;
- B. The profit and loss presented is translated by the average exchange rate in the period (except for the situation that the exchange rate on the trade date shall be adopted when the exchange rate fluctuates rapidly); and
- C. All resulting exchange differences are recognized in other comprehensive income. The translation differences arising from above processes are recognized as 'Exchange differences on translating the financial statements of foreign operations' under equity items. When a foreign operation is disposed of in full or in part, the exchange differences recognized in other comprehensive income are reclassified as profit or loss from equity.

4.4 Cash and Cash Equivalents

"Cash and cash equivalents" in the consolidated balance sheet includes cash on hand, due from other banks, short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. In respect of the consolidated statements of cash flows, cash include cash and cash equivalents shown in the consolidated balance sheet and due from the Central Bank of China and other banks and bills and bonds purchased under agreements to resell satisfying the definition of cash and cash equivalents in IAS 7.

4.5 Bills And Bonds Under Repurchase or Resale Agreements

For transactions of bills and bonds with a condition of repurchase agreement or resale agreement, the interest expense and interest income are recognized as incurred at the date of sale and purchase and the agreed period of sale and purchase. The repo trade liabilities, bond liabilities, reverse repo trade bills and bond investments are recognized at the date of sale or purchase.

4.6 Financial Assets or Liabilities

The financial assets and liabilities of the Bank and subsidiaries including derivatives are recognized in the consolidated balance sheet and are properly classified in accordance with IFRSs as endorsed by FSC.

(1) Financial Assets

The IFRSs as endorsed by the FSC apply to the financial assets of the Bank and subsidiaries, which are classified into: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity financial assets and available-for-sale financial assets.

A. A regular way purchase or sale

All the financial assets of the Bank and subsidiaries are accounted for using trade date accounting.

B. Loans and receivables

There are two types of loans and receivables: one is originated by an entity and the other is not. Loans and receivables originated by an entity refer to the direct provision by the Bank and subsidiaries of money, merchandise or services to debtors, and loans and receivables not originated by the Bank and subsidiaries are loans and receivables other than those originated by the Bank and its subsidiaries.

Loans and receivables are initially recognized at fair value, which includes the price of transaction, significant costs of transaction, significant handling fees paid or received, discount and premium, etc., and subsequently measured using the effective interest method. However if the effect of discount is insignificant, pursuant to paragraphs 7 and 10, Article 10 of the "Regulations Governing the Preparation of Financial Reports by Public Banks", loans and receivables can be measured at initial amount.



C. Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are acquired by the Bank and subsidiaries principally for the purpose of selling or repurchasing or gaining profit in the short-term, or if they are derivative instruments. These financial assets are initially recognized at fair value.

Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

- (A) They eliminate or significantly reduce a measurement or recognition inconsistency such as measurement of financial assets or liabilities or recognition of related gain or loss on different bases; or
- (B) Their performance is evaluated on a fair value basis; or
- (C) Hybrid (combined) instruments including embedded derivative instruments.

Financial assets designated at fair value through profit or loss and financial assets designated at fair value through profit or loss on initial recognition are recognized under the "financial assets at fair value through profit or loss" in the consolidated balance sheet and any changes in their fair value is recognized under the 'gain or loss on financial assets and liabilities at fair value through profit or loss' account in the consolidated statement of comprehensive income.

D. Held-to-maturity financial assets

Held-to-maturity financial assets are measured at fair value plus acquisition or issuance cost on initial recognition and subsequently at the amortized cost and the interest income using the effective interest rate.

E. Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value plus acquisition or issuance cost on initial recognition and subsequently at fair value. Any subsequent change in fair value of available-for-sale financial assets is adjusted against equity. Cumulative valuation gain or loss of a financial asset is recognized as current income or loss when the asset is derecognized.

F. Other financial assets

(A) Financial assets carried at cost

Equity instruments with no quoted price in an active market are initially recognized at fair value plus acquisition or issuance cost. The fair value can be reasonably estimated when the following criteria are met at the balance sheet date: (a) the variability in the range of reasonable fair value estimate is not significant for that equity instrument; or (b) probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the variability in the range of reasonable fair value estimate of the instruments is significant and that it is not possible to assess the probabilities of the various estimates, the instruments shall not be measured at fair value. Financial assets that cannot be measured at fair value shall be carried at cost.

(B) Debt investments with no active market

Investments in debt instruments without active market are initially recognized at fair value on the trade date plus transaction costs of acquisition or issuance. Disposal gain or loss is recognized when derecognized. Bond investments without active market are measured at amortized cost using the effective interest method.

(2) Financial Liabilities

Financial liabilities held by the Bank and subsidiaries comprise financial liabilities at fair value through profit or loss (including financial liabilities as at fair value through profit or loss on initial recognition), financial liabilities measured at amortized cost and hedging derivatives.

A. Financial liabilities at fair value through profit or loss

This category includes financial liabilities held for trading or financial liabilities measured at fair value through profit or loss on initial recognition.

A financial liability shall be classified as held for trading, if it is acquired or incurred principally for the purpose of repurchasing it in the near term; or on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. A derivative is also classified as held for trading, except for a derivative that is a financial guarantee contract or a designated and effective

hedging instrument.

Financial liabilities designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss on initial recognition are recognized under the “financial liabilities at fair value through profit or loss” in the consolidated balance sheet and any changes in their fair value is recognized under the ‘gain or loss on financial assets and liabilities at fair value through profit or loss’ account in the consolidated statement of comprehensive income.

B. Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost include financial liabilities which are not classified as financial liabilities measured at fair value through profit or loss, hedging derivative financial liabilities, financial guarantee contracts, and financial liabilities arising from transfer of financial assets that does not qualify for derecognition to the extent of transferor's continuing involvement.

C. Determination of fair value

Fair value and level information of financial instruments are provided in Note 7.

D. Deferring recognition of first-day profit or loss

The fair value of a financial instrument with no active market held by the Bank and subsidiaries is not generated from a valuation model by inputting observable market prices or interest rates. As such, financial instruments with no active market are recognised at the cost of acquisition on initial recognition. However, the acquisition price may differ from the amount generated from the valuation model. The difference is commonly referred to as “first-day profit or loss” and is not immediately recognised in the consolidated statements of comprehensive income.

As such, recognition of first-day profit or loss may be deferred until all parameters used in the valuation model are observable in the market or until settlement.

E. Derecognition of financial assets and liabilities

A financial asset is derecognized when the contractual rights to receive the cash flows from the financial asset expire, or when all the risks and rewards of ownership of the financial assets are substantially transferred.

A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

In case of securities lending or borrowing by the Bank or subsidiaries or provision of bonds or stocks as security for Repo trading, the Bank and subsidiaries do not derecognize the financial asset, because substantially all risks and rewards of ownership of the financial asset are still retained in the Bank and subsidiaries .

4.7 Reclassification of Financial Assets

Reclassification of the non-derivative financial assets is in accordance with IAS 39 as endorsed by the FSC.

4.8 Offsetting Financial Instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when (1) there is a legally enforceable right to offset the recognized amounts and (2) there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

4.9 Interest Income and Expense

Other than those classified as financial assets and liabilities at fair value through profit and loss, all the interest income and interest expenses generated from interest-bearing financial assets are calculated by effective interest rate according to relevant regulations and recognized as “interest income” and “interest expense” in the consolidated statement of comprehensive income.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, subsequent recognition of interest income is calculated using the interest rate to discount the future cash flows for the purpose of assessing impairment.



4.10 Service Fee and Commission Income

Service fee income and expense are recognized upon the completion of services of loans or other services; service fee income and expense of subsequent services of loans are amortized or included in the calculation of effective interest rate of loans and receivables during the service period.

4.11 Impairment of Financial Assets

(1) Financial assets carried at amortized cost

At each reporting date, a financial asset or a group of financial assets is assessed by the Bank and subsidiaries to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a single or several loss event(s) has (have) occurred after the initial recognition of the asset, and that the "loss event" has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that a financial asset or a group of financial assets is impaired includes:

- A. significant financial difficulty of the issuer or obligor;
- B. a breach of contract, such as a default or delinquency in interest or principal payments;
- C. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- D. it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- E. the disappearance of an active market for that financial asset because of the issuer's financial difficulties; or
- F. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - (A) adverse changes in the payment status of borrowers in the group; or
 - (B) changes in national or local economic conditions that correlate with defaults on the
 - (C) assets in the group

The Bank and subsidiaries consider the evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar credit risk characteristics. Financial assets that are assessed individually with impairment recognized or continue to be recognized need not be included in the collective assessment.

Where there is objective evidence indicating impairment loss, The amount of the impairment loss is the difference between the financial assets' book value and the estimated future cash flow (excluding future credit loss not yet incurred) discounted using the original effective interest rate. The carrying amount of assets is adjusted in the allowance for credit loss and the amount of impairment loss is listed under "allowance for credit loss and loss on guarantees" or "loss on impairment of financial assets". The amount of impairment loss of financial assets with a floating interest rate is discounted using the prevailing interest rate as set out in the agreement.

Financial assets through group assessment are grouped based on similar credit risk characteristics, such as types of assets, industry and collaterals. Such credit risk characteristics represent the ability of the debtors to pay all the amounts at maturities according to the contract term (such as credit risk assessment or rating procedures that consider the type of asset, industry and security, the overdue status and other key factors), which is related to future cash flow estimates of each group of financial assets.

The future cash flows of group of financial assets for group assessment are estimated based on historical impairment experience of financial assets in the group with similar credit risk characteristics. The historical impairment experience is adjusted on the basis of observable data for each period in order to reflect the effect of current conditions that did not have an impact on historical impairment experience and to eliminate the impact of past conditions that no longer exist at present.

When a loan is unable to be recovered, the carrying amount of the loan is offset against the

related allowance for credit loss. The amount of impairment loss is offset against the uncollectible loan with the consent of the Board of Directors after the Bank and subsidiaries complete all mandatory legal procedures and provided that the amount of impairment loss may be determined.

If, in a subsequent period, the amount of the impairment loss decreased and such decrease is objectively related to an event occurred after the impairment was recognized (such as an improvement in the credit rating of the borrower), the amount of impairment loss recognized previously shall be reserved by adjusting allowance for credit loss. The reversal shall not cause the carrying amount of the financial asset exceeding the amortized cost of the period before recognition of the impairment loss. The amount of the reversal shall be recognized in the current income statement.

The above process of evaluation follows the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non accrual Loans" (the "Regulations") issued by the FSC under which loan assets are classified into the following categories. Normal credit assets shall be classified as "Category One". The Bank and subsidiaries shall make an allowance for credit losses and guarantees equaling 0.5% of the balance of Category One assets less government claims. The remaining unsecured assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five." The minimum allowance for credit losses and guarantees should be 2% for Category Two, 10% for Category Three, 50% for Category Four and 100% for Category Five, respectively.

(2) Available-for-sale financial assets

When the decrease in the fair value of an available-for-sale financial asset is recognized in other comprehensive income and where there is objective evidence indicating an impairment has occurred, the losses accumulated in the fair value reserve in equity are reclassified to profit or loss, even if the available-for-sale financial asset is not derecognized yet.

Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Any subsequent increases in fair value of an investment in an equity instrument are recognized in other comprehensive income. If the impairment loss of bond investments decreases with objective evidence indicating that an impairment loss has been incurred after the impairment is recognized, the impairment amount is reversed and recognized in current profit and loss.

(3) Financial assets carried at cost

When there is objective evidence that financial assets carried at cost are impaired, the loss amount is recognized in "loss on impairment of financial assets" and the impairment loss is non-reversible.

4.12 Derivative Financial Instruments

(1) Derivative financial instruments are measured at fair value at initial recognition and in the subsequent period. Fair value is determined using valuation techniques that consider using quoted prices in an active market, recent market price, discounted cash flow models and option pricing models. If the result of its valuation at fair value is positive, a derivative instrument is classified as a financial asset, otherwise, it is classified as a financial liability.

(2) Economic characteristics and risks of the embedded derivatives and the economic characteristics of the main contract should be examined for the embedded derivatives. If the two are not closely correlated and the main contract is not a financial asset or liability at fair value through profit and loss, the main contract and embedded derivatives should be respectively recognized unless the overall hybrid contract is designated as assets or liabilities at fair value through profit and loss. The embedded derivatives are the financial assets or liabilities at fair value through profit and loss.

(3) Non-qualifying hedging derivatives

When a derivative is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss as "gain or loss on financial assets and liabilities at fair value through profit or loss".



4.13 Impairment of Non-financial Assets

In accordance with International Accounting Standards 36 Asset impairment (“IAS 36”) endorsed by the FSC, at each reporting date or as circumstance changes, the Bank and its subsidiaries assess non-financial assets for any indication of impairment in which the recoverable amount of an asset is less than its carrying amount. If the recoverable amount of an asset is less than its carrying amount, the difference between the recoverable amount and carrying amount is recognized as impairment loss. Assets are grouped together into the smallest group of identifiable assets (cash-generating unit) that generates cash inflows. Impairment test is also applied to an individual asset when its fair value less selling cost or its value-in-use can be reliably measured. Impairment loss on non-financial assets (other than goodwill) recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased.

4.14 Foreclosed Collaterals

Foreclosed collaterals are recognized at the foreclosure price. Foreclosed properties are stated at the lower of its carrying amount or fair value less costs to sell at the end of period.

4.15 Leases

All lease agreements of the Bank and its subsidiaries are operating leases. Expenses incurred under an operating lease is recognized in profit or loss on a straight-line basis over the lease term and recognized in “other business and administrative expenses” and “other net non-interest income”.

4.16 Property and Equipment

The property and equipment of the Bank and subsidiaries are recognized on the basis of the historical cost less accumulated depreciation. Historical cost includes all costs directly attributable to the acquisition of the assets. Such assets are subsequently measured using the cost model.

When the future economic benefit related to subsequent expenditure related to the asset is highly likely to flow into the Bank and its subsidiaries and that the costs can be reliably measured, such expenditure may be included in the carrying amount of the asset or may be separately recognized as assets. The carrying amount of the replaced part is derecognized. When the future economic benefit generated from subsequent costs is highly likely to flow into the entity and subsequent major improvements or repair expenses shall be capitalized. On-going repairs and maintenance cost is expensed as incurred.

The Bank and its subsidiaries examine the residual value and useful lives of the property and equipment and make appropriate adjustments accordingly on an annual basis.

Land is not affected by depreciation. Depreciation for other assets is provided on a straight-line basis over the estimated useful lives of the assets until carrying amount of the assets reaches their residual value as follows:

Building	48-60 years
Leasehold improvement	5 years, or the lease term if less than 5 years
Equipment and machinery	3-20 years

Gain or loss on disposal is the difference between the carrying amount and proceeds from disposal and is recognized in “other net non-interest income” in the consolidated statements of comprehensive income.

4.17 Intangible Assets

Intangible assets refer to computer software acquired by the Bank and its subsidiaries. The cost incurred on acquiring the software is capitalized and is amortised over the useful life of the software which is estimated to be 6 years.

4.18 Income Taxes

(1) Current income tax

Income tax payable (refundable) is calculated on the basis of the tax laws enacted in the countries where the Bank operates and generates taxable income. Except that the transactions

or other matters are directly recognized in other comprehensive income or equity, and that related income taxes in the period are recognized in other comprehensive income or directly derecognized from equity, all the others should be recognized as income or expense as recorded as gain and loss in the period.

(2) Deferred income tax

Deferred income tax assets and liabilities are measured based on the tax rate of the anticipated period that the future assets realization or the liabilities settlement requires, which is based on the effective or existing tax rate at the consolidated balance sheet date. The carrying amount and temporary differences of assets and liabilities included in the consolidated balance sheet are calculated through liability method and recognized as deferred income tax. The temporary difference of the Bank and its subsidiaries mainly occurs due to the setting aside and transferring of depreciation of property and equipment, valuation of certain financial instruments (including derivatives), and reserve for pension and other post-employment benefits.

Deductible temporary difference within the scope that is probable to offset taxable income is recognized as deferred income tax.

Deferred income tax assets and liabilities are not offset if they relate to income taxes levied by different tax authorities.

4.19 Employee Benefits

(1) Short-term employee benefits

The Bank and its subsidiaries recognize the undiscounted amount of the short-term benefits expected to be paid in the future as expenses in the period when the employees render service.

(2) Post employment benefit

The pension plan of the Bank and its subsidiaries includes both Defined Contribution Plan and Defined Benefit Plan.

Under the Defined Contribution Plan, the Bank and its subsidiaries make a certain amount of contribution to the Plan to fulfill the obligations. The Bank and its subsidiaries make pension fund contributions to a publicly managed pension fund on a compulsory, contractual or voluntary basis. Shall the assets under pension fund be insufficient to cover employment benefits that employees are entitled to receive as a result of services they provide to the Bank in the past or in the current period, the Bank and subsidiaries are not under legal or constructive obligation to make additional contributions. The contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid pension assets are recognized to the extent of a cash refund or a reduction in the future payments.

Under the defined benefit plan, the amount of pension payment is determined on the basis of the amount of benefit that an employee is entitled to receive upon his or her retirement. The amount is determined on the basis of age, year of service and salary supplement.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the actuarial present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using market yields at the balance sheet date on high-quality corporate bonds with a currency and term consistent with the currency and term of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses market yields on government bonds (at the balance sheet date) instead.

Actuarial gains and losses arising on defined benefit plans due to actual experience or changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise. Past service costs are recognized immediately in profit or loss if vested immediately except where due to an amendment to the pension plan requires consideration of whether an employee continues to provide service during a specific period (vesting period), the past service costs are amortized on a straight-line basis over the vesting period.

(3) Employment benefit - preferential interest on employees' deposits

The Bank and its subsidiaries offer preferential interest rate to its current employees and retired employees for their deposits within a prescribed amount. The preferential interest rate in excess of market interest rate is treated as employee benefits.



Under Article 28 of the “Regulations Governing the Preparation of Financial Reports by Public Banks”, if the Bank's preferential deposit interest rate for an employee as stated in the employment contract exceeds the market interest rate, the excess will be subject to IAS 19 “Defined Benefit Plan” as endorsed by the FSC upon the employee's retirement. The actuarial valuation assumptions and parameters are based on those announced by the authority, if any.

(4) Termination benefits

Termination benefit is paid to the employees of the Bank and its subsidiaries who are eligible for retirement and terminated or voluntarily dismiss in exchange of termination benefit. The Bank and its subsidiaries made promises in the formal detailed employment termination plan which is irrevocable, and shall recognize liabilities when providing termination benefit to employees who voluntarily resign as a result of encouragement. Termination benefit paid 12 months after the financial reporting date should be discounted.

4.20 Provision for Liabilities, Contingent Liabilities and Contingent Assets

When all the following criteria are met, the Bank and its subsidiaries shall make a provision for liabilities:

- (1) A present obligation (legal or constructive) as a result of a past event;
- (2) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (3) The amount of the obligation can be reliably estimated.

The Bank and its subsidiaries do not make a provision for liabilities for future operating losses.

If there are several similar obligations, the outflow of economic benefit as a result of settlement is determined based on the overall obligation. Provisions for liabilities should be recognized when the outflow of economic benefits is probable in order to settle the obligation as a whole even if the outflow of economic benefits from any one of the obligation is remote.

Provisions are measured by the present value of expense which is required for settling the anticipated obligation. The pre-tax discount rate is used with timely adjustment that reflects the current market assessments on the time value of money and the risks specific to the obligation.

Contingent liability is a possible obligation that arises from past event, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank and its subsidiaries. Or it could be a present obligation as a result of past event but the payment is not probable or the amount cannot be measured reliably. The Bank and subsidiaries did not recognize any contingent liabilities but made appropriate disclosure in compliance with relevant regulations.

Contingent asset is a possible obligation that arises from past event, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank and its subsidiaries. The Bank and its subsidiaries did not recognize any contingent assets and made appropriate disclosure in compliance with relevant regulations when the economic inflow is probable.

4.21 Financial Guarantee Contracts

The Bank and its subsidiaries initially recognize financial guarantee contracts at fair value on the date of issuance. The Bank and its subsidiaries charge a service fee when the contract is signed and therefore the service fee income charged is the fair value at the date that the financial guarantee contract is signed. Service fee received in advance is recognized in deferred accounts and amortized through straight-line method during the contract term.

The best estimate of the liability amount of a financial guarantee contract requires management to exercise their judgment combined with historical loss data based on the similar transaction experiences.

The increase in liabilities due to financial guarantee contract is recognized in “Allowance for credit loss and loss on guarantees”.

4.22 Bank Debentures

Bank debentures issued by the Bank and its subsidiaries are measured at amortised cost using the effective interest rate method.

4.23 Capital

(1) Cost of issuing shares

Incremental costs directly attributable to the issuance of new shares are removed from equity.

(2) Common share dividends

Stock dividends are not recognized and are only disclosed as subsequent event in the notes if the dividend declaration date is later than the consolidated balance sheet date.

4.24 Comparative Information

The Bank and its subsidiaries shall disclose the comparative information for the amounts reported in the current financial statements unless otherwise specifically provided by the IFRS or regulations endorsed by the FSC.

Comparative information was adjusted to reflect changes in accounting policies or account reclassification to ensure that such information is comparable to the financial information for the current year.

4.25 Operating Segments

Information of operating segments of the Bank and its subsidiaries is reported in the same method as the internal management report provided to the Chief Operating Decision-Maker (CODM). The CODM of the Bank refers to the Board of Directors of the Bank and its subsidiaries.

5. MAJOR SOURCES OF UNCERTAINTIES ASSOCIATED WITH SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements of the Bank and its subsidiaries requires management to make appropriate professional judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Bank and its subsidiaries made appropriate assumptions on and estimates of material risks associated with significant adjustments to be made to the carrying amount of assets and liabilities in the next financial year.

The assumptions and estimates made by the Bank and its subsidiaries are the best assumptions and estimates under the IFRSs. Assumptions and estimates are evaluated on an on-going basis and adjusted based on historical experience and other factors including projections of the future.

Management's critical judgements and the accounting policies applicable to some items had significant impact on the amounts reported in the financial statements of the Bank and its subsidiaries.

5.1 Impairment Loss on Loans

The Bank and its subsidiaries review loan portfolios to assess impairment periodically. In determining whether an impairment loss should be recorded in the income statement, the Bank and its subsidiaries make judgments to recognize impairment loss as to whether there is observable evidence indicating that an impairment has occurred. This evidence includes repayment status of debtor, event that would cause delinquency in payments, and any significantly unfavorable changes in national or local economic circumstances. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly by the Bank and its subsidiaries in order to decrease the difference between estimated loss and actual loss.

5.2 Financial Instruments

- (1) The fair value of non-active market or non-quoted financial instruments is determined using valuation techniques. Such fair value is based on observable data of similar financial instruments or valuation model. If there are no observable market parameters, the fair value of financial instruments is evaluated based on appropriate assumptions. If the fair value is determined by the valuation



model, the model is calibrated to ensure that all output data and the results reflect the actual market price. This valuation model use only observable data as much as possible. The management is required to estimate the volatility and correlation of credit risks (own and counterparty risks).

(2) Financial assets – impairment on equity investment

The Bank and its subsidiaries determine whether impairment has occurred on individual financial assets-equity investment in accordance with IFRS 39. The decision requires the management to exercise important judgment. The Bank and its subsidiaries separately evaluate the time when the fair values of individual investments fall below their costs

(3) Financial assets carried at cost

The more recent information obtainable for equity instruments with no active market held by the Bank and its subsidiaries was insufficient to determine the fair value of such assets, and as such the fair value of the assets cannot be reliably measured. These investments were classified as “financial assets carried at cost”.

(4) Held-to-maturity financial assets

The management of the Bank and its subsidiaries has requested the Bank and its subsidiaries to review the held-to-maturity financial assets on the basis of capital adequacy and liquidity requirements. The management also requires confirmation of the positive intent and ability of the Bank and its subsidiaries to hold the said assets until maturity. As of December 31, 2013 and 2012 and January 1, 2012, the carrying amounts of held-to-maturity assets amounted to NT\$0, NT\$0 and NT\$ 5,566,536 thousands.

(5) Please refer to Note 8.5 for analysis on the risks of financial instruments.

5.3 Income Tax

The estimates of income taxes payable involve many transactions and calculations. The Bank and its subsidiaries may recognize additional income tax liabilities for some tax issues when necessary. Any difference between the final income tax payable and initially recognized income tax payable will affect the amounts of current income taxes and deferred income taxes.

Please see Note 6.8 for evaluation of deferred income tax items.

5.4 Post Employment Benefit

The present value of post-employment benefit obligations are estimated based on several actuarial assumptions. Any changes in those assumptions will affect the carrying amounts of post-employment benefit obligations.

The assumptions used to determine net pension cost (revenue) comprise the discount rate. The Bank and its subsidiaries determine the appropriate discount rate at the end of each year, and use the discount rate in calculating the present value of future cash out of post-employment benefit obligations. The discount rate is chosen by reference to the rate of high-quality corporate bonds where the currency and maturity date of high-quality corporate bonds are in agreement with those of post-employment benefit obligations.

Other significant assumptions associated with post-employment benefits are made on the basis of current market conditions.

6. DETAILS OF SIGNIFICANT ACCOUNTS

6.1 Cash and Cash Equivalents

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Cash on hand and petty cash	\$1,150,821	\$1,182,836	\$1,036,534
Foreign currency deposits	152,720	151,244	175,802
Notes and checks for clearing	505,160	1,447,863	1,172,360
Due from banks	1,520,440	384,838	455,406
Total	\$3,329,141	\$3,166,781	\$2,840,102

For the purpose of preparing the consolidated cash flow statements, cash and cash equivalents comprise of the following amounts:

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Cash and cash equivalents in consolidated balance sheets	\$3,329,141	\$3,166,781	\$2,840,102
Due from the Central Bank of China and other banks that meet the definition of cash and cash equivalents in IAS 7	17,521,290	18,294,442	19,637,610
Bills and bonds purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	3,460,558	4,967,234	5,878,341
Cash and cash equivalents in consolidated statement of cash flow	\$24,310,989	\$26,428,457	\$28,356,053

6.2 Due from Central Bank and Call Loans to Banks

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Deposit reserve- Category A	\$2,239,306	\$2,665,825	\$4,834,242
Deposit reserve- Category B	5,102,088	4,847,479	4,970,089
Due from Central Bank – National Treasury	178	–	–
NCD issued by Central Bank	15,500,000	13,160,000	11,400,000
Due from Central Bank – interbank settlement funds	370,314	635,480	130,151
Call loans to banks	8,388	3,326,630	2,800,000
Total	\$23,220,274	\$24,635,414	\$24,134,482

- (1) The deposit reserves deposited at the Central Bank of China are determined monthly at prescribed rates based on the average balances of deposits. Category A deposit reserve account is non-interest bearing and withdrawals may be made at any time. Category B reserve account is interest-bearing and no withdrawal is permitted unless upon monthly adjustment of the account or otherwise specifically provided by law.
- (2) Please refer to Note 11 for details of NCD issued by the Central Bank of China as security over the various businesses of the Bank and subsidiaries as of December 31, 2013 and 2012 and January 1, 2012.

6.3 Financial Assets at Fair Value Through Profit or Loss

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Financial assets held for trading:			
Short-term notes	\$1,510,437	\$1,262,610	\$1,309,634
Stocks	1,235	–	–
Bonds (government, financial and corporate)	72,110	120,043	76,199
Subtotal	\$1,583,782	\$1,382,653	\$1,385,833
Financial assets at fair value through profit or loss			
Convertible bonds	\$ –	\$75,459	\$229,339
Subtotal	\$ –	\$75,459	\$229,339
Derivative instruments			
Forwards	\$1,789	\$425	\$677
Foreign exchange swaps	4,850	905	–
Subtotal	\$6,639	\$1,330	\$677
Total	\$1,590,421	\$1,459,442	\$1,615,849



Please refer to Note 6.17 for details of derivative contracts that have yet to mature as of December 31, 2013 and 2012 and January 1, 2012.

- (1) The financial assets designated as financial assets at fair value through profit or loss are hybrid instruments.
- (2) Please refer to Note 11 for details of financial assets held for trading of the Bank and its subsidiaries provided as collateral for the various businesses.

6.4 Available-For-Sale Financial Assets- Net

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Stocks	\$192,515	\$127,482	\$93,603
Bonds (government, financial and corporate)	2,969,893	4,000,054	1,127,499
Beneficiary securities	60,923	128,428	11,207
NCD issued by the Central Bank	10,200,678	9,200,940	7,050,698
Foreign bonds	5,825,593	5,734,191	3,519,309
Less: accumulated impairment	—	—	—
Total	\$19,249,602	\$19,191,095	\$11,802,316

- (1) Please refer to Note 11 for details of available-for-sale financial assets held by the Bank and its subsidiaries provided as collateral for the various businesses as of December 31, 2013 and 2012 and January 1, 2012.
- (2) The above available-for-sale financial assets of the Bank and its subsidiaries provided as the underlying securities for RP/RS trading as of December 31, 2013 and 2012 and January 1, 2012 amounted to NT\$62,200 thousand, \$ 59,900 thousand and \$ 88,900 thousand, respectively.

6.5 Bills and Bonds With Agreements to resell

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Bills	\$3,350,499	\$4,712,224	\$5,105,127
Government bonds	110,059	255,010	773,214
Total	\$3,460,558	\$4,967,234	\$5,878,341

Bills and bonds with agreements to resell held by the Bank and its subsidiaries will be sold at agreed prices of \$3,461,566 thousand, \$4,968,743 thousand and \$5,880,505 thousand, respectively after December 31, 2013 and 2012 and January 1, 2012. As of December 31, 2013 and 2012 and January 1, 2012, bonds with resell agreements were not provided as underlying securities for repurchase agreements.

6.6 Accounts Receivable

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Foreign exchange receivable	\$ —	\$145	\$131
Interest receivable	381,552	410,205	356,666
Acceptances receivable	34,778	150,811	124,776
Credit card fees receivable	164,681	198,278	189,386
Factoring receivable	—	—	138,040
Revenues receivable	136,273	138,672	122,091
Accounts receivables from credit card issuers	15,280	11,033	12,111
Other receivable	79,469	65,083	9,000
Subtotal	\$812,033	\$974,227	\$952,201
Less: allowance for doubtful accounts	(54,533)	(43,341)	(14,676)
Net	\$757,500	\$930,886	\$937,525

6.7 Current Income Tax Assets/Liabilities

(1) Income tax expense

Item	2013	2012
Current income tax		
Current tax expense	\$54,157	\$22,000
Adjustment for prior periods	(5,411)	1,863
Subtotal	\$48,746	\$23,863
Deferred tax expense		
Origination and reversal of temporary differences	\$11,268	(\$43,861)
Subtotal	\$11,268	(\$43,861)
Income tax expense (benefit)	\$60,014	(\$19,998)

The Bank and its subsidiaries expect to recover current income tax assets within 12 months of December 31, 2013 and 2012 and January 1, 2012 in the amounts of 19,862 thousand, \$30,733 thousand, \$33,357 thousand; No current asset is expected to be recovered beyond 12 months of the respective balance sheet dates. Current tax liabilities that will be repaid within 12 months of the balance sheet dates were \$ 9,811 thousand, \$7,301 thousand and \$5,392 thousand, respectively; no tax liability was due beyond 12 months of the respective balance sheet dates.

(2) Differences between pre-tax income and taxable income are reconciled as follows:

An income tax rate of 17% was applicable to the Bank and its subsidiaries for the years ended December 31, 2013 and 2012. Please refer to Note 6.8 for details of deferred income tax items.

The Bank and subsidiaries' pre-tax income multiplied by the statutory tax rate and income tax expense were reconciled as follows:

Item	2013	2012
Pre-tax income	\$479,119	\$438,296
Income tax from pre-tax income calculated at a statutory rate of 17%	\$81,450	\$74,510
Adjustments:		
Net changes in deferred tax assets	11,268	(43,861)
Effects of income tax exemption	(39,926)	(20,397)
Effects of other tax adjustments	(13,259)	(43,911)
Differences in general tax amounts and basic tax amounts	25,892	11,798
Income tax adjustment for prior period	(5,411)	1,863
Income tax expense (benefit)	\$60,014	(\$19,998)

(3) Please see Note 6 (25)- other equity for details of tax effects of other comprehensive income items.

(4) As of December 31, 2013, the income tax returns of the Bank, Insurance Agency and General Insurance Agency have been assessed by the tax authorities through to 2012.

(5) Imputation Tax System and Other Information:

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Balance of imputation tax credit	\$170,660	\$202,690	\$163,588
Unappropriated earnings-before June 30, 1998	—	—	—
Unappropriated earnings-July 1, 1998 & thereafter	214,246	75,776	(780,278)



Item	2013	2012
Ratio of deductible tax credit for the appropriation of earnings	20.48%	20.48%
	(Estimated)	(Actual)

The tax credit distributed to individual shareholders is computed based on the balance of the imputation credit account as of the dividend distribution date. As such, the Bank anticipates that the imputation tax credit rate used for appropriation of the 2013 earnings may differ from the tax credit rate applicable when distributed.

- (6) Details of income tax credits the Bank and its subsidiaries were entitled to pursuant to the Statute for Upgrading Industry as of December 31, 2013: None.

6.8 Deferred Tax Assets/Liabilities

- (1) Deferred income tax assets and liabilities are offset on the balance sheet when the Bank and its subsidiaries have a legally enforceable right to do so and that they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities for years 2013 and 2012 were calculated by multiplying all temporary differences by the weighted-average effective tax rate of 17%.

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Deferred tax assets			
Deferred tax assets- recoverable in more than 12 months			
– Unrealized expense on provision of employees' pension	\$132,629	\$122,395	\$50,415
– Other	1,364	1,390	3,101
Subtotal	\$133,993	\$123,785	\$53,516
Deferred tax assets- recoverable in less than 12 months			
– Unused tax losses	\$ –	\$13,620	\$40,766
– Other	(172)	4,521	678
Subtotal	(\$172)	\$18,141	\$41,444
Deferred income tax assets-net	\$133,821	\$141,926	\$94,960

- (2) Unrecognised deferred income tax assets
As of December 31, 2013 and 2012 and January 1, 2012, the balance of unrecognized deferred income tax assets was nil as of the respective balance sheet dates.

- (3) Changes in deferred income tax assets

Item	2013	2012
Balance, January 1	\$141,926	\$94,960
Amount recognised in current income	(11,268)	43,861
Amount recognised in other comprehensive income	3,163	3,105
Balance, December 31	\$133,821	\$141,926

- (4) Deferred income tax assets recognized in current income:

Item	2013	2012
Unrealized expense on provision of employees' pension	\$5,459	\$71,980
Carry-forward loss	(13,620)	(27,146)
Other	(3,107)	(973)
Deferred tax benefit (expense)	(\$11,268)	\$43,861

(5) Deductible temporary difference and unused tax losses within the scope that are probable to offset taxable income are recognized by the Bank and subsidiaries as deferred income tax. The recoverability of deferred income tax assets recognized by the Bank and its subsidiaries as of in December 31, 2013 was assessed on the basis of profitability projections for the next 10 years. The Bank and its subsidiaries shall make adjustments to the recognized deferred tax asset amounts accordingly shall there be subsequent changes in the profitability assumptions. As of December 31, 2013, tax losses or amounts recoverable recognised as deferred income tax assets were both nil.

6.9 Discounts and Loans, Net

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Discounts	\$1,001	\$43,513	\$10,982
Overdrafts	464,145	611,813	765,466
Short-term loans	54,386,478	53,744,128	57,460,456
Short-term secured loans	15,569,546	12,757,972	13,139,277
Medium-term loans	21,941,064	19,065,295	19,761,881
Medium-term secured loans	24,546,631	22,432,612	24,524,823
Long-term loans	13,192,243	13,829,419	12,490,735
Long-term secured loans	48,526,499	39,747,546	38,370,150
Import/export negotiations	31,304	34,759	64,545
Overdue loans	883,659	1,129,862	1,311,407
Subtotal	\$179,542,570	\$163,396,919	\$167,899,722
Less: allowance for doubtful accounts	(1,281,095)	(1,352,574)	(1,683,852)
Net	\$178,261,475	\$162,044,345	\$166,215,870

(1) Please see Note 8.3 (8) for details of evaluation on impairment of discounts and loans and receivables as of December 31, 2013 and 2012 and January 1, 2012.

(2) The Bank and its subsidiaries made appropriate allowance for credit losses arising from discounts, loans and receivables. As of December 31, 2013, details for allowance for credit losses in respect of discounts, loans and receivables are as follows:

A. Changes in allowance for credit losses with respect to discounts and loans:

Item	2013	2012
Balance, January 1	\$1,352,574	\$1,683,852
Provision	347,737	197,539
Write-offs	(505,706)	(837,942)
Recovery of written-off credits	174,015	319,474
Effects of exchange rate changes and others	(87,525)	(10,349)
Balance, December 31	\$1,281,095	\$1,352,574

B. Changes in allowance for credit losses with respect to accounts receivable:

Item	2013	2012
Balance, January 1	\$43,341	\$14,676
Provision	14,338	28,492
Write-offs	(3,498)	(505)
Recovery of written-off credits	1,114	—
Effects of exchange rate changes and others	(762)	678
Balance, December 31	\$54,533	\$43,341



C. Changes allowance for credit losses with respect to overdue accounts other than loans:

Item	2013	2012
Balance, January 1	\$11,520	\$20,061
Provision	2,463	19,807
Write-offs	(3,872)	(28,493)
Recovery of written-off credits	—	—
Effects of exchange rate changes and others	(432)	145
Balance, December 31	\$9,679	\$11,520

D. The Bank and its subsidiaries recognized \$ 400,838 thousand bad debt expenses for the year ended December 31, 2013, of which \$364,538 thousand were included in allowance for credit losses and \$ 36,300 thousand in guarantee reserves. The Bank and its subsidiaries recognized \$260,838 thousand bad debt expenses for the year ended December 31, 2012, of which \$245,838 thousand were included in allowance for credit losses and \$15,000 thousand in guarantee reserves.

6.10 Held-to-Maturity Financial Assets, Net

December 31, 2013: \$0.

December 31, 2012: \$0.

Item	January 1, 2012
Bonds (government, financial and corporate bonds)	\$2,842,182
Foreign bonds	2,724,354
Less: accumulated impairment	—
Total	\$5,566,536

- (1) Please see Note 11 for details of the held-to-maturity financial assets used as collateral held by the Bank and subsidiaries as of December 31, 2013 and 2012 and January 1, 2012.
- (2) In consideration of increasing the flexibility of asset use, in August, 2012, the Board of Directors of the Bank and its subsidiaries resolved to reclassify the entire balance of held-to-maturity assets to available-for-sale financial assets.

6.11 Other Financial Assets, Net

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Equity investments carried at cost	\$1,118,567	\$1,187,137	\$1,187,137
Bond investments with no active market	555,850	559,564	2,026,789
Non-performing loans transferred from accounts other than loans	19,180	28,489	30,068
Short-term advances	29,118	22,221	20,016
Remittances purchased	627	—	—
Subtotal	\$1,723,342	\$1,797,411	\$3,264,010
Less: allowance for doubtful accounts	(9,679)	(11,520)	(20,061)
Less: Accumulated Impairment- equity investment	—	(25,000)	—
Less: Accumulated Impairment- bond investment	(147,332)	(136,983)	(1,513,416)
Net	\$1,566,331	\$1,623,908	\$1,730,533

Changes in accumulated impairment:

Item	2013	2012
Balance, January 1	\$161,983	\$1,513,416
Provisions	27,937	96,301
Write-off	(43,570)	(1,387,790)
Effects of exchange rate changes	982	(59,944)
Balance, December 31	\$147,332	\$161,983

6.12 Property and Equipment, Net

Name of Asset	Dec. 31, 2013			
	Cost	Accumulated Depreciation	Accumulated Impairment	Carrying Amount
Land	\$2,031,893	\$ —	\$190,198	\$1,841,695
Building	1,218,188	404,934	—	813,254
Machinery equipment	530,460	480,206	—	50,254
Transportation equipment	22,270	18,285	—	3,985
Miscellaneous equipment	87,547	78,262	—	9,285
Leasehold improvement	268,852	243,243	—	25,609
Total	\$4,159,210	\$1,224,930	\$190,198	\$2,744,082

Name of Asset	Dec. 31, 2012			
	Cost	Accumulated Depreciation	Accumulated Impairment	Carrying Amount
Land	\$2,031,893	\$ —	\$190,198	\$1,841,695
Building	1,218,188	383,188	—	835,000
Machinery equipment	621,583	564,260	—	57,323
Transportation equipment	24,558	20,016	—	4,542
Miscellaneous equipment	92,562	83,118	—	9,444
Leasehold improvement	245,641	235,647	—	9,994
Total	\$4,234,425	\$1,286,229	\$190,198	\$2,757,998

Name of Asset	Jan. 1, 2012			
	Cost	Accumulated Depreciation	Accumulated Impairment	Carrying Amount
Land	\$2,038,893	\$ —	\$190,198	\$1,848,695
Building	1,239,159	369,264	—	869,895
Machinery equipment	622,593	546,961	—	75,632
Transportation equipment	22,835	20,036	—	2,799
Miscellaneous equipment	95,618	85,234	—	10,384
Leasehold improvement	245,641	225,701	—	19,940
Total	\$4,264,739	\$1,247,196	\$190,198	\$2,827,345



(1) Changes in property and equipment:

Item	Land	Building	Machinery Equipment	Transportation Equipment	Miscellaneous Equipment	Leasehold Improvement	Total
Cost							
Balance, Jan. 1, 2013	\$2,031,893	\$1,218,188	\$621,583	\$24,558	\$92,562	\$245,641	\$4,234,425
Additions	—	—	16,236	539	2,180	23,211	42,166
Disposals	—	—	(107,394)	(2,827)	(7,196)	—	(117,417)
Foreign exchange differences	—	—	35	—	1	—	36
Balance, Dec. 31, 2013	\$2,031,893	\$1,218,188	\$530,460	\$22,270	\$87,547	\$268,852	\$4,159,210
Accumulated Depreciation							
Balance, Jan. 1, 2013	\$ —	\$383,188	\$564,260	\$20,016	\$83,118	\$235,647	\$1,286,229
Depreciation	—	21,746	23,307	1,096	2,340	7,596	56,085
Disposals	—	—	(107,393)	(2,827)	(7,196)	—	(117,416)
Foreign exchange differences	—	—	32	—	—	—	32
Balance, Dec. 31, 2013	\$ —	\$404,934	\$480,206	\$18,285	\$78,262	\$243,243	\$1,224,930
Accumulated Impairment							
Balance, Jan. 1, 2013	\$190,198	\$ —	\$ —	\$ —	\$ —	\$ —	\$190,198
Impairment loss	—	—	—	—	—	—	—
Balance, Dec. 31, 2013	\$190,198	\$ —	\$ —	\$ —	\$ —	\$ —	\$190,198
Net							
Balance, Dec. 31, 2013	\$1,841,695	\$813,254	\$50,254	\$3,985	\$9,285	\$25,609	\$2,744,082

Item	Land	Building	Machinery Equipment	Transportation Equipment	Miscellaneous Equipment	Leasehold Improvement	Total
Cost							
Balance, Jan. 1, 2012	\$2,038,893	\$1,239,159	\$622,593	\$22,835	\$95,618	\$245,641	\$4,264,739
Additions	—	—	9,314	2,743	1,627	—	13,684
Disposals	(7,000)	(20,971)	(10,271)	(1,020)	(4,682)	—	(43,944)
Foreign exchange differences	—	—	(53)	—	(1)	—	(54)
Balance, Dec. 31, 2012	\$2,031,893	\$1,218,188	\$621,583	\$24,558	\$92,562	\$245,641	\$4,234,425
Accumulated Depreciation							
Balance, Jan. 1, 2012	\$ —	\$369,264	\$546,961	\$20,036	\$85,234	\$225,701	\$1,247,196
Depreciation	—	22,088	27,562	1,001	2,563	9,946	63,160
Disposals	—	(8,164)	(10,217)	(1,021)	(4,678)	—	(24,080)
Foreign exchange differences	—	—	(46)	—	(1)	—	(47)
Balance, Dec. 31, 2012	\$ —	\$383,188	\$564,260	\$20,016	\$83,118	\$235,647	\$1,286,229
Accumulated Impairment							
Balance, Jan. 1, 2012	\$190,198	\$ —	\$ —	\$ —	\$ —	\$ —	\$190,198
Impairment loss	—	—	—	—	—	—	—
Balance, Dec. 31, 2012	\$190,198	\$ —	\$ —	\$ —	\$ —	\$ —	\$190,198
Net							
Balance, Dec. 31, 2012	\$1,841,695	\$835,000	\$57,323	\$4,542	\$9,444	\$9,994	\$2,757,998

(2) Reconciliation of property and equipment additions with the cash flow:

Item	Dec. 31, 2013	Dec. 31, 2012
Property and equipment additions	\$42,166	\$13,684
Foreign exchange differences	4	(7)
Decommissioning liabilities	(2,777)	—
Consideration paid for property and equipment	<u>\$39,393</u>	<u>\$13,677</u>

(3) The land situated at Hsin Hsing District owned by the Bank and its subsidiaries was a land acquired by the Bank prior to privatization of the Bank, and was planned to be used as the business premise of the Bank and subsidiaries. However, after privatization of the Bank, the Bank is no longer a governmental institution and due to the zoning restrictions, the Bank and subsidiaries had applied to the Kaohsiung Municipal Government in writing to alter the zoning registration, which was approved in March, 2013.

(4) As of December 31, 2013 and 2012 and January 1, 2012, the insured amounts for property and equipment were \$1,944,849 thousand, \$1,935,651 thousand and \$1,972,146 thousand, respectively.

6.13 Intangible Assets, Net

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Cost of computer software — being used	\$159,760	\$124,744	\$133,428
Cost of computer software — yet to go live	—	26,875	28,219
Less: accumulated amortisation	(118,445)	(101,382)	(99,082)
Accumulated impairment	—	—	—
Net	<u>\$41,315</u>	<u>\$50,237</u>	<u>\$62,565</u>

Changes in intangible assets:

Item	2013	2012
Cost		
Balance, January 1	\$151,619	\$161,647
Additions	8,141	764
Disposals	—	(10,792)
Balance, December 31	<u>\$159,760</u>	<u>\$151,619</u>
Accumulated amortisation		
Balance, January 1	\$101,382	\$99,082
Amortisation expense	17,063	13,092
Disposals	—	(10,792)
Balance, December 31	<u>\$118,445</u>	<u>\$101,382</u>
Accumulated Impairment		
Balance, January 1	\$ —	\$ —
Impairment loss	—	—
Balance, December 31	<u>\$ —</u>	<u>\$ —</u>
Intangible assets, net	<u>\$41,315</u>	<u>\$50,237</u>



6.14 Other Assets, Net

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Refundable deposits	\$32,337	\$26,795	\$26,039
Miscellaneous assets	4,136	5,633	8,030
Prepayments	22,508	25,127	24,846
Total	\$58,981	\$57,555	\$58,915

6.15 Due to Central Bank of China and Other Banks

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Due to the Central Bank	\$74,907	\$68,783	\$57,049
Due to banks	112,487	186,624	113,021
Due to Chunghwa Post	794,472	919,994	1,500,133
Overdrafts on banks	534,499	5,308	46,355
Calls loan from other (central) banks	13,508,300	10,754,970	9,795,038
Total	\$15,024,665	\$11,935,679	\$11,511,596

6.16 Financial Liabilities at Fair Value Through Profit or Loss

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Derivatives			
Forwards	\$857	\$613	\$268
Foreign exchange swaps	4,764	—	3,569
Total	\$5,621	\$613	\$3,837

The Bank and subsidiaries engaged in derivative transactions for the years ended December 31, 2013 and 2012 for the purpose of meeting clients' trading needs, squaring the Bank's positions, meeting the Bank's funding requirements in different currencies and hedging against risks arising from interest rate fluctuations. The hedging strategy of the Bank and subsidiaries primarily aims at hedging against risks arising from market price or cash flow fluctuations. As of December 31, 2013 and 2012 and Jan. 1, 2012, the contractual amounts (notional principal) of the derivative contracts held by the Bank and subsidiaries were as follows:

Item	Contractual Amount		
	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Forward exchange contracts	246,395	204,236	258,018
Foreign exchange swap contracts	1,162,657	233,837	866,749

6.17 Bills and Bonds Sold with Agreement to Repurchase

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Bills	\$ —	\$ —	\$ —
Government bonds	68,019	68,914	103,207
Total	\$68,019	\$68,914	\$103,207

The purchase considerations for bills and bonds sold with agreement to repurchase after December 31, 2013 and 2012 and January 1, 2012 were \$68,136 thousand, \$69,015 thousand and \$103,335 thousand.

6.18 Payables

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Accounts payable	\$13,488	\$10,162	\$11,962
Acceptances	34,778	150,811	124,776
Interest payable	356,429	375,780	392,520
Accrued expenses	194,051	172,776	153,902
Collections for others	218,872	37,558	40,397
Checks for clearing	505,160	1,447,863	1,172,360
Payroll transfers payable	1,122,257	1,406,255	1,221,593
Other payables	302,184	355,717	263,788
Total	\$2,747,219	\$3,956,922	\$3,381,298

6.19 Deposits and Remittances

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Checking account deposits	\$2,158,202	\$2,420,670	\$3,382,844
Public treasury deposits	12,323,322	11,905,378	10,815,120
Demand deposits	21,236,799	19,067,491	18,339,298
Time deposits	58,184,960	55,715,621	63,872,935
Negotiable certificate of deposits	404,300	2,394,600	5,685,900
Demand savings deposits	47,034,166	44,756,545	43,517,559
Time savings deposits	57,343,514	53,191,843	48,251,659
Remittances	4,681	3,331	707
Total	\$198,689,944	\$189,455,479	\$193,866,022

6.20 Bank debentures

Item	Offering Period Interest Rate	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Subordinate financial debentures First issue, 2007	2007. 6.12 - 2014.6.12 1.263%, 1.294% & 1.261%	\$1,000,000	\$1,000,000	\$1,000,000
Subordinate financial debentures First issue, 2009	2009. 1.20 - 2016.1.20 3.4%	3,000,000	3,000,000	3,000,000
Subordinate financial debentures First issue, 2013	2013. 8.6 - 2010. 8.6 2.1%	1,300,000	—	—
Subordinate financial debentures Second issue, 2013	2013. 9.5 - 2010. 9.5 2.1%	700,000	—	—
Total		\$6,000,000	\$4,000,000	\$4,000,000

6.21 Other Financial Liabilities

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Appropriated loan funds	\$7,264	\$19,500	\$30,907
Appropriated loans	131,439	132,616	164,243
Total	\$138,703	\$152,116	\$195,150

Appropriated loan funds described above refer to the various special syndicated loans organized by the Bank and subsidiaries, the 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 were entrusted to the Bank by the respective committees to fund special project loans.



6.22 Reserves for Liabilities

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Reserve for employee benefit liabilities	\$788,335	\$728,138	\$672,403
Reserve for guarantee liabilities	51,300	15,000	—
Other	15,855	13,078	13,078
Total	\$855,490	\$756,216	\$685,481

(1) Changes in reserve for guarantee liabilities:

Item	2013	2012
Balance at beginning of period	\$15,000	\$ —
Provisions (reversals)	36,300	15,000
Balance at end of period	\$51,300	\$15,000

6.23 Reserves for employee benefits

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Recognised in consolidated balance sheet:			
– Defined benefit plan	\$749,336	\$689,207	\$626,944
– Employee preferential savings plan	38,999	38,931	45,459
Total	\$788,335	\$728,138	\$672,403

(1) Defined benefit plan:

A. The Bank and its subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Labor Standards Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Bank and its subsidiaries contribute monthly an amount equal to 8% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

B. The amounts recognized in the consolidated balance sheet were determined as follows:

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Defined benefit obligation	\$1,334,212	\$1,258,053	\$1,157,647
Fair value of plan assets	584,876	568,846	530,703
Unrecognised past service costs	—	—	—
Net liabilities recognised in balance sheet	\$749,336	\$689,207	\$626,944

C. Changes in the Present Value of Defined Benefit Obligation:

Item	2013	2012
Defined benefit obligation as of January 1	\$1,258,053	\$1,157,647
Service cost	91,697	92,511
Interest cost	24,823	23,078
Actuarial gain or loss	24,339	13,323
Benefits paid	(64,700)	(28,506)
Defined benefit obligation as of December 31	\$1,334,212	\$1,258,053

D. Changes in the Fair Value of Plan Assets:

Item	2013	2012
Fair value of plan assets as of January 1	\$568,846	\$530,703
Expected return on plan assets	11,711	11,034
Actuarial gain or loss	(4,434)	(5,692)
Employer contributions	48,643	49,274
Benefits paid	(39,890)	(16,473)
Fair value of plan assets as of December 31	\$584,876	\$568,846

E. Total amount of expenses recognised in the consolidated comprehensive income statement:

Item	2013	2012
Service cost	\$91,697	\$92,511
Interest cost	24,823	23,078
Expected return on plan assets	(11,711)	(11,034)
Pension cost	\$104,809	\$104,555

Details of pension expenses recognised in the consolidated comprehensive income statement:

Item	2013	2012
Employee benefit expense	\$104,809	\$104,555

F. Actuarial loss (gain) recognised in other comprehensive income:

Item	2013	2012
Accumulated balance, January 1	\$19,015	\$ -
Increase	28,773	19,015
Accumulated balance, December 31	\$47,788	\$19,015

G. The Bank of Taiwan was commissioned to manage the Fund of the Bank's and subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and Article 6 of the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (including deposits in domestic or foreign financial institutions, investment



in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. The constitution of fair value of plan assets as of December 31, 2013 and 2012 is given in the Annual Labor Retirement Fund Utilization Report published by the government. Expected return on plan assets was a projection of overall return for the obligations period, which was estimated based on historical returns and by reference to the status of Labor Retirement Fund utilization by the Labor Pension Fund Supervisory Committee and taking into account the effect that the Fund's minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks.

H. The principal actuarial assumptions used were as follows:

Item	2013	2012
Discount rate	2.00%	2.00%
Future salary increases	2.00%	2.00%
Expected long-term return on plan assets	2.00%	2.00%

I. Historical information of experience adjustments was as follows:

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Present value of defined benefit obligation	(\$1,334,212)	(\$1,258,053)	(\$1,157,647)
Fair value of plan assets	584,876	568,846	530,703
Surplus/(deficit) in the plan	(\$749,336)	(\$689,207)	(\$626,944)
Experience adjustments on plan liabilities	\$24,339	\$13,323	\$ -
Experience adjustments on plan assets	\$4,434	\$5,692	\$ -

(2) Defined contribution plan:

A. Effective July 1, 2005, the Bank and its subsidiaries have established a funded defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"). Employees have the option to be covered under the New Plan. Under the New Plan, the Bank contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The payment of pension benefits is based on the employees' individual pension fund accounts and the cumulative profit in such accounts, and the employees can choose to receive such pension benefits monthly or in lump sum.

B. The pension costs under the defined contribution pension plan recognized by the Bank and its subsidiaries for the years ended December 31, 2013 and 2012 were \$13,330 thousand and \$12,313 thousand, respectively.

(3) Employee preferential savings plan:

A. Please refer to Note 4.19 for details of the payment obligations of fixed-amount preferential savings of the Bank's and subsidiaries' retired employees and current employees after retirement. The employee preferential savings plan is administered in accordance with internal policies.

B. The amounts recognized in the consolidated balance sheet were determined as follows:

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Defined benefit obligation	\$38,999	\$38,931	\$45,459
Fair value of plan assets	-	-	-
Unrecognized past service cost	-	-	-
Net liabilities recognized in balance sheet	\$38,999	\$38,931	\$45,459

A. Changes in fair value of defined benefit obligation:

Item	2013	2012
Defined benefit obligation as of January 1	\$38,931	\$45,459
Interest cost	1,277	1,818
Actuarial loss (gain)	(693)	(8,025)
Recognise deficiency in pension expense	13,945	13,818
Benefits paid	(14,461)	(14,139)
Defined benefit obligation as of December 31	\$38,999	\$38,931

B. Total amount of expenses recognized in comprehensive income statement

Item	2013	2012
Interest cost	\$1,277	\$1,818
Adjustments required	13,945	13,818
Pension cost	\$15,222	\$15,636

Details of the above expenses recognized in the consolidated statement of income:

Item	2013	2012
Employee benefit expense	\$15,222	\$15,637

C. Actuarial loss (gain) recognized in other comprehensive income:

Item	2013	2012
Accumulated balance, January 1	(\$8,025)	\$ —
Increase	(693)	(8,025)
Accumulated balance, December 31	(\$8,718)	(\$8,025)

D. The principal actuarial assumptions used were as follows:

Item	2013	2012
Discount rate	4.00 %	4.00%
Future pay rise rate	2.00 %	2.00%
Expected return on funds deposited	2.00%	2.00%
Annual decreasing ratio for account balance	5.837%	4.252%
Probability of cancellation of preferential savings system in the future	50.00%	50.00%
Deposit rate offered to general clients for similar deposits	2.00%	2.00%

E. Historical information of experience adjustments was as follows:

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Present value of defined benefit obligation	\$38,999	\$38,931	\$45,459
Fair value of plan assets	—	—	—
Surplus/(deficit) in the plan	\$38,999	\$38,931	\$45,459
Experience adjustments on plan liabilities	(\$693)	(\$8,025)	\$ —
Experience adjustments on plan assets	\$ —	\$ —	\$ —



6.24 Other Liabilities

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Guarantee deposits received	\$42,132	\$39,843	\$38,903
Advance receipts	95,565	114,252	63,243
Temporary receipts and suspense accounts	7,063	26,487	1,135
Other	89	455	143
Total	\$144,849	\$181,037	\$103,424

6.25 Equity

(1) Ordinary share and capital increase

As of December 31, 2013 and 2012 and January 1, 2012, the Bank's and subsidiaries' authorized capital was \$15,000,000 thousand as of the balance sheet dates, while the issued capital was \$7,210,492 thousand, \$7,069,476 thousand and \$7,069,476 thousand, respectively represented by 721,049 thousand shares, 706,947 thousand shares and 706,947 thousand shares, respectively, with a par value of \$10 per share.

Shareholders of the Bank, in the shareholders' meeting held on June 20, 2013, adopted the proposal for appropriation of the 2012 earnings, which involved capital increase by capitalising shareholders' bonus in the amount of \$127,251 thousand and employee profit sharing in the amount of \$12,568 thousand (calculated at \$9.32 per share being the closing price on the date prior to shareholders' resolution and thus resulting in issuance of 1,377 thousand shares with a total par value of \$13,765 thousand). The aforesaid capital increase proposal was approved by the FSC on July 15, 2013 authorizing the Bank to issue a total of 14,102 common shares with a par value of \$10. The ex-dividend date for the capital increase was scheduled to be August 7, 2013 and change of registration with the Ministry of Economic Affairs should complete on August 26, 2013.

(2) Capital surplus

Item	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Surplus arising from issuance of new shares at a premium	\$2,016,544	\$2,016,544	\$2,016,544
Endowment received	61	61	61
Surplus arising from employee bonus	—	1,119	1,119
Total	\$2,016,605	\$2,017,724	\$2,017,724

The Company Act provides that capital surplus arising from issuance of new shares at a premium and endowment received may be used to offset accumulated loss. Where a company incurs no loss, it may, distribute its capital surplus by issuing new shares which shall be distributable as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash. The Securities and Exchange Act also prescribes that the total amount of capital surplus capitalized for issuance of new shares shall not exceed 10% of the total issued capital per year. A company shall not use the capital reserve to recover its capital loss, unless the surplus reserve is insufficient to recover such loss.

(3) Legal reserve

A company shall set aside a legal reserve until its balance equals the amount of total issued capital. Legal reserve may be used to offset loss. Amendments to the Company Act announced on January 4, 2012 provide that the portion of the legal reserve exceeding 25% of paid-in capital may be capitalized or distributed by cash. On the other hand, the Banking Law provides that prior to the balance of legal reserve reaching total paid-in capital, the maximum amount distributed by cash shall not exceed 15% of total paid-in capital.

(4) Special reserve

In addition to the legal reserve, the Bank shall set aside a special reserve in accordance with the Articles of Incorporation or regulatory requirements. As of December 31, 2013 and 2012 and January 1, 2012, the Company's special surplus amounted to \$0, \$0 and \$41,937 thousand, respectively.

(5) Other equity items

Item	Exchange differences on translation of financial statements of foreign operations	Available-for-sale financial assets	Other	Total
Balance, January 1, 2013	(\$6,042)	\$107,961	\$487	\$102,406
Foreign currency translation adjustments				
– Gain or loss on translating the financial statements of foreign operating entities in the period	9,475	–	–	9,475
– Tax effects on Gain or loss on translating the financial statements of foreign operating entities in the period	(1,611)	–	–	(1,611)
Available-for-sale financial assets				
– Unrealized (loss) gain on available- for-sale financial assets	–	(141,605)	–	(141,605)
– Tax effects of unrealized (loss) gain on available-for-sale financial assets	–	–	–	–
– Reclassification of accumulated (gain) or loss on disposal of available- for-sale financial assets to income statement	–	(54,689)	–	(54,689)
– Tax effects of reclassification of Accumulated gain or loss on disposal of available-for-sale financial assets	–	–	–	–
Actuarial gain or loss on defined benefitplan				
– Amount recognized in current period	–	–	–	–
– Amount transferred to retained earnings in current period	–	–	–	–
Other				
– Movements in current period	–	–	(33)	(33)
Balance, December 31, 2013	\$1,822	(\$88,333)	\$454	(\$86,057)



Item	Exchange differences on translation of financial statements of foreign operations	Available-for-sale financial assets	Other	Total
Balance, January 1, 2012	\$ —	(\$48,932)	\$521	(\$48,411)
Foreign currency translation adjustments				
– Gain or loss on translating the financial statements of foreign operating entities in the period	(7,280)	—	—	(7,280)
– Tax effects on Gain or loss on translating the financial statements of foreign operating entities in the period	1,238	—	—	1,238
Available-for-sale financial assets				
– Unrealized (loss) gain on available- for-sale financial assets	—	292,327	—	292,327
– Tax effects of unrealized (loss) gain on available-for-sale financial assets	—	—	—	—
– Reclassification of accumulated (gain) or loss on disposal of available- for-sale financial assets to income statement	—	(135,434)	—	(135,434)
– Tax effects of reclassification of Accumulated gain or loss on disposal of available-for-sale financial assets	—	—	—	—
Actuarial gain or loss on defined benefitplan				
– Amount recognized in current period	—	—	—	—
– Amount transferred to retained earnings in current period	—	—	—	—
Other				
– Movements in current period	—	—	(34)	(34)
Balance, December 31, 2012	(\$6,042)	\$107,961	\$487	\$102,406

A. Unrealized gains or losses arising from available-for-sale financial assets refer to accumulated gains or losses arising from available-for-sale financial assets revalued at fair value, which were recognized in other comprehensive income, less any amount that was reclassified to income statement upon disposal or impairment of such assets.

B. The income tax effects of other comprehensive income items:

FY 2013:

Item	Exchange differences on translation of financial statements of foreign operations	Available-for-sale financial assets	Actuarial gain or loss arising from defined benefit plan	Total
Pre-tax amount	\$9,475	(\$196,294)	(\$28,080)	(\$214,899)
Income tax effects	(1,611)	—	4,774	3,163
Net of tax	\$7,864	(\$196,294)	(\$23,306)	(\$211,736)

FY 2012:

Item	Exchange differences on translation of financial statements of foreign operations	Available-for-sale financial assets	Actuarial gain or loss arising from defined benefit plan	Total
Pre-tax amount	(\$7,280)	\$156,893	(\$10,990)	\$138,623
Income tax effects	1,238	—	1,867	3,105
Net of tax	(\$6,042)	\$156,893	(\$9,123)	\$141,728

6.26 Retained of Earnings and Dividend Policy

Item	2013	2012
Unappropriated earnings at beginning of period	\$75,776	(\$780,278)
Legal reserve used to offset loss	—	364,946
Special reserve used to offset loss	—	41,937
Provision for legal reserve	(115,861)	—
Stock dividend	(127,251)	—
Cash dividend	(14,139)	—
Employee bonuses capitalized	(78)	—
Actuarial gain or loss – employee pension liabilities	(23,881)	(15,783)
Actuarial gain or loss – employee preferential savings	575	6,660
Net income(loss)	419,105	458,294
Unappropriated earnings at end of period	\$214,246	\$75,776

(1) According to the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating loss, and 30% of the remaining amount should then be set aside as legal reserve. A provision for or reversal of the special reserve shall be determined in accordance with provisions under the applicable laws and regulations and according to actual business requirements. The remaining earnings are then distributed as follows: (1) 2% to as remuneration to directors and supervisors; (2) 8% as bonuses to employees; and (3) 90% for distribution of dividends to shareholders. The Board of directors may, depending on future business



requirements and profitability, retain all or part of earnings. Distribution of dividends to shareholders may be determined according to current earnings and business development requirements with the Board of Directors proposing to the shareholders' meeting to make adjustments to the percentage of earnings to be distributed as cash dividends and stock dividends, to the extent that cash dividends shall be no less than 5% of stock dividends distributed in the current year. The maximum amount of earnings that may be distributed prior to the legal reserve reaching the total amount of paid-in capital or prior to the capital adequacy level reaching the required standard as set out in the Banking Law, shall be subject to the provisions of the Banking Law and laws and regulations prescribed by the competent authority.

- (2) Legal reserve may not be appropriated unless used to offset prior year's loss or the portion of the legal reserve exceeding 25% of paid-in capital may be distributed by issuing new shares which shall be distributable as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash.
- (3) A. In accordance with Article 41 of the Securities and Exchange Act, in addition to provision for legal reserve, a company is required to set aside a portion of earnings as special reserve equivalent to the balance of contra equity accounts (such as unrealized gain or loss of financial instruments, cumulative translation adjustments etc). Subsequent reversal of any contra equity amounts may be distributed.
B. Reversal of special reserve set aside in accordance with Gin-Guan-Zheng-Fa letter No. 1010012865 of FSC dated on April 6, 2012 upon the first-time adoption of IFRSs to retained earnings shall be based on the proportion of the original ratio of special reserve upon subsequent use, disposal or reclassification of related assets.
- (4) The Bank estimates the percentage of earnings that will be distributed as employee bonuses or remuneration to directors and supervisors in accordance with the Articles of Incorporation and with reference to the average percentage of distribution for prior years as resolved by shareholders' meeting. The Bank recognized the estimated costs of \$13,200 thousand and \$18,850 thousand as employees' bonuses and \$3,300 thousand and \$4,710 thousand as remuneration to directors and supervisors for years 2013 and 2012, respectively. The difference, if any, is treated as changes in accounting estimates and will be adjusted in the year in which shareholders approved the actual amounts to be distributed.
- (5) Appropriation of earnings for 2012 and 2011 resolved by the shareholders' meeting in June 2013 and June 2012, respectively and earnings per share:

Item	Earnings Appropriation		EPS (\$)	
	2012	2011	2012	2011
Legal reserve	\$115,861	\$ —		
Special reserve	—	—		
Common shares cash dividend	14,139	—	0.02	—
Common shares stock dividend	127,251	—	0.18	—
Total	\$257,251	\$ —		

Information on the appropriation of the Bank's earnings as approved by the Board of Directors and in the shareholders' meeting is posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

- (6) In 2013, shareholders resolved in the shareholders' meeting to distribute \$12,568 thousand and \$3,142 thousand as employee bonuses and remuneration to directors and supervisors, respectively, resulting in differences of \$6,282 thousand in employee bonuses and \$1,568 thousand in remuneration to directors and supervisors compared to amounts recognized in the 2012 financial statements which were, \$18,850 thousand and \$4,710 thousand, respectively. The aforesaid differences will be adjusted in the year of shareholders' resolution.
- (7) As of March 27, 2014, the Board of Directors have yet to propose the appropriation of earnings and earnings per share for 2013.

6.27 Net interest Income

Item	2013	2012
Interest income		
Interest from bills discounted and loans	\$3,591,204	\$3,371,825
Interest from deposits and call loans from other banks	178,458	146,227
Interest from securities investment	348,293	397,105
Credit card revolving interest income	1,114	1,056
Other interest income	40,270	73,722
Subtotal	\$4,159,339	\$3,989,935
Interest expense		
Interest expenses from deposits	\$1,617,178	\$1,626,258
Interest expenses from interbank overdraft and call loans	139,857	138,290
Interest expenses on financial debentures	130,702	114,778
Other interest expenses	2,275	4,222
Subtotal	\$1,890,012	\$1,883,548
Net interest income	\$2,269,327	\$2,106,387

Interest accrued on financial assets on which an impairment has occurred for the years 2013 and 2012 was \$14,511 thousand and \$17,541 thousand, respectively.

6.28 Commission and Fee Revenues, Net

Item	2013	2012
Service fee revenue		
Service fee revenue- trust business	\$109,718	\$88,944
Service fee revenue- guarantees	41,421	41,561
Service fee revenue- foreign exchange	9,203	9,760
Service fee revenue- loans	54,671	50,981
Credit card service fee revenue	13,943	17,862
Agency fee revenue	234,201	214,819
Deposit and remittance service fee revenue and other service fee revenue	36,631	46,233
Subtotal	\$499,788	\$470,160
Service fee expense		
Service fee expense- foreign exchange	\$6,129	\$6,031
Deposit and remittance service fee expense and other service fee expenses	35,350	37,819
Subtotal	\$41,479	\$43,850
Net service fee revenue	\$458,309	\$426,310

The Bank and its subsidiaries provide custodian, trust, investment management and consulting services to third parties, which involve the planning, management and decision-making in determining the use of financial instruments. Assets managed under a trust fund or in an investment portfolio are separately presented in separate accounts and financial statements and are not included in the Bank's and subsidiaries' financial statements.



6.29 Financial Assets or Financial Liabilities at Fair Value Through Profit or Loss

Item	2013	2012
Gain and loss from disposal of financial assets and liabilities at fair value through profit or loss		
Interest income	\$15,020	\$17,873
Stock dividends	1,639	—
Gain (loss) on disposal— non-derivative instruments	3,753	17,759
Gain (loss) on disposal— derivative instruments	41,546	(33,633)
Subtotal	\$61,958	\$1,999
Valuation gains and losses on financial assets and liabilities at fair value through profit or loss		
Non-derivative instruments	(\$6,405)	(\$341)
Derivative instruments	301	3,877
Subtotal	(\$6,104)	\$3,536
Total	\$55,854	\$5,535

6.30 Realized Gain or (Loss) on Available-for-Sale Financial Assets, Net

Item	2013	2012
Stock dividend	\$4,225	\$2,994
Gain on disposal		
Bond	103,633	140,858
Stock and funds	6,386	28
Subtotal	\$114,244	\$143,880
Loss on disposal		
Bond	\$51,722	\$2,521
Stock and funds	3,608	2,931
Subtotal	\$55,330	\$5,452
Total	\$58,914	\$138,428

6.31 Realized Gain (Loss) on Held-to-Maturity Financial Assets

Item	2013	2012
Gain on disposal— government bonds	\$ —	\$ —
Gain on disposal— corporate bonds	—	—
Gain on disposal— financial debentures	—	269
Total	\$ —	\$269

6.32 Impairment (Reversal Gain) of Assets

Item	2013	2012
Loss on impairment of financial assets with no active market	\$9,367	\$71,301
Loss on impairment of financial assets carried at cost	18,570	25,000
Total	\$27,937	\$96,301

6.33 Other Net non-Interest Income

Item	2013	2012
Gain on rental income	\$5,023	\$4,721
Gain on financial assets carried at cost	36,581	35,338
Other net gain or (loss)	74,694	12,332
Total	\$116,298	\$52,391

Please refer to Note 12.2 for details of amounts received with respect to the Lehman Brothers investments that were transferred to income.

6.34 Employee Benefit Expense

Item	2013	2012
Wages and salaries	\$1,150,859	\$1,130,495
Labor and health insurance fees	90,837	88,430
Pensions costs (Note)	136,352	136,436
Other employee benefits	10,081	9,740
Total	\$1,388,129	\$1,365,101

(Note): Included compensation payments amounting to \$2,991 thousand and \$3,932 thousand, respectively.

6.35 Depreciation and Amortization Expense

Item	2013	2012
Depreciation expense- property and equipment	\$56,085	\$63,160
Amortisation expense- intangible assets and other assets	18,990	15,404
Total	\$75,075	\$78,564

6.36 Other Business and Administrative Expense

Item	2013	2012
Taxes and dues	\$114,719	\$106,487
Rental expense	119,273	116,110
Insurance expenses	81,230	91,977
Postage & handling	13,877	14,401
Utility expense	24,145	23,241
Consumables	24,147	21,055
Repair expense	41,233	42,622
Business promotion and advertising expenses	17,594	16,435
Professional service fees	49,201	49,388
Other	108,685	83,536
Total	\$594,104	\$565,252



6.37 Earnings Per Share

Item	2013	2012
Before-tax net income (loss) (A)	\$479,119	\$438,296
Net income (loss)(B)	\$419,105	\$458,294
Weighted-average number of shares outstanding (thousand shares)	720,246	706,947
Weighted-average number of shares outstanding after retroactive adjustment (thousand shares)(C)	720,246	719,672
Basic earnings per share		
Net income (loss) for the current period (B)/(C)	\$0.58	\$0.64

Shareholders of the Bank resolved in the annual general shareholders' meeting held on June 20, 2013 the proposal to increase capital by capitalizing earnings and employee bonuses, which will result in the issuance of 14,102 thousand new shares (12,725 thousand shares through capitalisation of earnings and 1,377 thousands through capitalisation of employee bonuses). The ex-dividend and ex-right date was set to be August 7, 2013. The change of registration was completed on August 26, 2013.

The weighted-average number of shares outstanding for 2013 was computed as follows:

$706,947 + 12,725 + 1,377 * 5/12 = 720,246$ thousand shares

The weighted-average number of shares outstanding after earnings capitalisation

$(706,947 * 1.018 = 719,672$ thousand shares) for retroactive adjustment of the EPS for 2012.

7. FAIR VALUE AND HIERARCHY INFORMATION OF FINANCIAL INSTRUMENTS

7.1 Fair Value Information of Financial Instruments

Item	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets						
Cash and cash equivalents	\$3,329,141	\$3,329,141	\$3,166,781	\$3,166,781	\$2,840,102	\$2,840,102
Due from the Central Bank and call loans to banks	23,220,274	23,220,274	24,635,414	24,635,414	24,134,482	24,134,482
Financial assets at fair value through profit or loss	1,590,421	1,590,421	1,459,442	1,459,442	1,615,849	1,615,849
Available-for-sale financial assets	19,249,602	19,249,602	19,191,095	19,191,095	11,802,316	11,802,316
Bills and bonds purchased under agreements to resell	3,460,558	3,460,558	4,967,234	4,967,234	5,878,341	5,878,341
Accounts receivable	757,500	757,500	930,886	930,886	937,525	937,525
Discounts and loans	178,261,475	178,261,475	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- investment in debt instruments with no active market	408,518	408,518	422,581	422,581	513,373	513,373
Other financial assets- financial assets carried at cost	1,118,567	—	1,162,137	—	1,187,137	—
Financial Liabilities						
Due to Central Bank and other banks	\$15,024,665	\$15,024,665	\$11,935,679	\$11,935,679	\$11,511,596	\$11,511,596
Financial liabilities at fair value through profit or loss	5,621	5,621	613	613	3,837	3,837
Bills and bonds sold under agreements to repurchase	68,019	68,019	68,914	68,914	103,207	103,207
Accounts payable	2,747,219	2,747,219	3,956,922	3,956,922	3,381,298	3,381,298
Deposits and remittances	198,689,944	198,689,944	189,455,479	189,455,479	193,866,022	193,866,022
Bank debentures	6,000,000	6,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Other financial liabilities	138,703	138,703	152,116	152,116	195,150	195,150

7.2 Financial Instruments not Measured at Fair Value Through Profit or Loss:

Measurement of and assumptions used for estimating the fair value of the Bank's and subsidiaries' financial instruments not measured at fair value through profit or loss are as follows:

- (1) The carrying amounts of cash and cash equivalents, due from the Central Bank and call loans to banks, bills and bonds purchased under agreements to resell, accounts receivable, due to Central Bank and other banks, bills and bonds sold under agreements to repurchase, accounts payable and refundable deposits approximate their fair values due to their short maturities or the fact that the expected future receipts or receipts associated with these assets are similar to their carrying amounts.
- (2) Discounts and loans (including non-performing loans): Interest rates offered by the Bank and subsidiaries for loans are generally based on the benchmark interest rate plus or minus certain adjustment (that is the floating rate) to reflect the market interest rate. Thus, their carrying amounts by taking into account the recoverability of the loans shall be reasonable approximation of their fair values. The present values of the expected cash flows arising from medium- and long-term, fixed-interest rate loans approximate their fair values. However, as such loans account for only a small percentage of all loans, their carrying amounts by taking into account the recoverability of the loans shall be reasonable approximation of their fair values.
- (3) Held-to-maturity financial assets: When there is a quoted market price available in an active market, the fair value is determined using the market price. If there is no quoted market price for reference, a valuation technique or quoted price offer by the counterparties will be adopted to measure the fair value.
 - A. TWD Central Government Bond: Valuation of TWD central government bonds is based on the "fair values of subordinated debentures" provided by the OTC Securities Market.
 - B. TWD corporate bond and bank debentures: Valuation of TWD corporate bonds and bank debentures is based on the present value of expected cash flows discounted using the yield rate provided by the OTC Securities Market or the fair values of similar instruments published by the OTC Securities Market.
- (4) Deposits and remittances: The Bank and subsidiaries take into account the characteristics unique to the banking industry to determine the fair value of these assets. Where the interest rate is stipulated on the basis of market interest rate (that is market price), the deposits generally have matures less than 12 months, and as such, their carrying amounts approximate their fair values. However, the fair value of long-term deposits shall be determined based on the present values of the expected future cash flows provided that the deposits have maturities of less than 3 years. It is thus reasonable to estimate the fair value of deposits and remittances on the basis of their carrying amounts.
- (5) Bank debentures: The present value of future cash flows of bank debentures issued by the Bank, approximate their fair value and is also equivalent to their carrying amount.
- (6) Other financial assets- investment in debt instruments with no active market: investments in debt instruments with fixed returns or amounts to be received that are determinable but where no active market exists shall be measured at the amortized cost. An impairment loss is recognized where there is objective evidence indicating that an impairment has occurred in financial assets carried at amortized cost. If, in a subsequent period, the amount of the impairment loss decreased and such decrease is objectively related to an event occurred after the impairment was recognized, the amount of impairment loss recognized previously shall be reserved by. The amount of the reversal shall be recognized in the current income statement. The reversal shall not cause the carrying amount of the financial asset exceeding the amortized cost of the period before recognition of the impairment loss.
- (7) Other financial assets- financial assets carried at cost: As these assets have no quoted price in an active market, if the variability in the range of reasonable fair value estimate is significant or if probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value, the fair value of such assets cannot be reliably measured and as such, is not disclosed.



7.3 Financial Instruments Measured at Fair Value

Fair value refers to the amount at which an asset can be exchanged or a liability can be settled between two willing parties who have fully understood the terms under a fair trading arrangement.

The initial recognition of financial instruments is at fair value, which is often the transaction price. Subsequent appraisal is at fair value except for some financial instruments which are measured at the amortised cost. A quoted price in an active market is the best evidence of fair value upon subsequent appraisal of a financial instrument. In the absence of an active market, the Bank adopts a valuation technique or refers to prices quoted by Bloomberg or counterparties to determine the fair value.

If the quoted market price of a financial instrument is available in an active market, the quoted price approximates its fair value. Market quotes published by major stock exchanges and quoted market prices of on-the-run central government bonds published by the OTC market are used to estimate the fair values of equity instruments listed on the stock (OTC) exchanges and debt instruments with an active market.

If market quotes are readily and frequently obtainable from the Stock Exchange Corporation, brokers, underwriters, Industrial Trade Unions, pricing service agencies or competent authorities, and that the price represents the actual and frequent transactions at arm's length, then a financial instrument is deemed to have an active market. Financial instruments not meeting the criteria above are regarded as not having an active market. In general, significant price variances between the purchase price and selling price, significantly increasing price variances or extremely low trading volumes are all indicators of a non-active market.

The fair values of financial instruments held by the Bank by type or nature are disclosed as follows:

Type	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets at fair value through profit or loss						
Stocks	\$1,235	\$1,235	\$ —	\$ —	\$ —	\$ —
Bills	1,510,437	1,510,437	1,262,610	1,262,610	1,309,634	1,309,634
Bonds	72,110	72,110	195,502	195,502	305,538	305,538
Derivative assets	6,639	6,639	1,330	1,330	677	677
Available-for-sale financial assets						
Stocks	\$192,515	\$192,515	\$127,482	\$127,482	\$93,603	\$93,603
Funds	60,923	60,923	128,428	128,428	11,207	11,207
Bonds	8,795,486	8,795,486	9,734,245	9,734,245	4,646,808	4,646,808
Negotiable certificate of deposit	10,200,678	10,200,678	9,200,940	9,200,940	7,050,698	7,050,698
Financial liabilities at fair value through profit or loss						
Derivative liabilities	\$5,621	\$5,621	\$613	\$613	\$3,837	\$3,837

With the exception of financial instruments with an active market, the fair values of all other financial instruments were estimated using a valuation technique or with reference to the prices quoted by counterparties. Fair value measured by a valuation technique is usually estimated by reference to the fair values of other financial instruments with similar terms and characteristics, or by using cash flows discounting method, or using model calculation based on the market information (such as yield rate curves from OTC, average interest rate of commercial papers from Reuters) available on the consolidated balance sheet dates.

When assessing non-standardized financial instruments with lower complexity, derivative financial instruments such as debt instruments with no active market, interest rate swaps, foreign exchange swaps and options, the Bank uses valuation techniques and models which are extensively used by the market to estimate their fair value. The parameters used in the valuation model for these kinds of financial instruments are usually observable market information.

7.4 Hierarchy Information of Financial Instruments Measured at Fair Value

(1) Definition of the three fair value hierarchies

A. Level 1 inputs

Refer to the quoted prices in an active market for identical financial instruments. An active market refers to a market that meets all of the following conditions: the goods traded in the market are homogeneous; willing sellers and buyers can be found at the same time; and the price information is available to the public. The fair values of the Bank's investments in shares listed on the stock/OTC exchange, beneficiary certificates, popular Taiwan government bonds and derivatives with quoted prices in an active market, are deemed as Level 1 inputs.

B. Level 2 inputs

Observable prices other than the quoted prices in an active market comprise direct (e.g. prices) or indirect (e.g. derived from prices) observable inputs obtained from an active market. The Bank's investments in off-the-run government bonds, corporate bonds, bank debentures, convertible bonds and the majority of derivative instruments belong to this category.

C. Level 3 inputs

The inputs adopted to measure fair value at this level are unobservable inputs for the instruments.

(2) Fair value hierarchy of financial instruments

Unit: NT\$ Thousand

Financial Instruments at Fair Value	December 31, 2013				December 31, 2012				January 1, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Non-derivative Financial Instruments												
Assets												
Financial assets at fair value through profit or loss	\$1,583,782	\$73,345	\$1,510,437	\$ -	\$1,458,112	\$120,043	\$1,338,069	\$ -	\$1,615,172	\$76,199	\$1,538,973	\$ -
Financial assets held for trading purposes	1,583,782	73,345	1,510,437	-	1,382,653	120,043	1,262,610	-	1,385,833	76,199	1,309,634	-
Investment in stocks	1,235	1,235	-	-	-	-	-	-	-	-	-	-
Investment in bonds	72,110	72,110	-	-	120,043	120,043	-	-	76,199	76,199	-	-
Investment in bills	1,510,437	-	1,510,437	-	1,262,610	-	1,262,610	-	1,309,634	-	1,309,634	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss on initial recognition	-	-	-	-	75,459	-	75,459	-	229,339	-	229,339	-
Available-for-sale financial assets	\$19,249,602	\$2,783,166	\$16,466,436	\$ -	\$19,191,095	\$3,637,813	\$15,553,282	\$ -	\$11,802,316	\$726,660	\$11,075,656	\$ -
Investment in stocks	192,515	192,515	-	-	127,482	127,482	-	-	93,603	93,603	-	-
Investment in bonds	8,795,486	2,529,728	6,265,758	-	9,734,245	3,381,903	6,352,342	-	4,646,808	621,850	4,024,958	-
Other	10,261,601	60,923	10,200,678	-	9,329,368	128,428	9,200,940	-	7,061,905	11,207	7,050,698	-
Liabilities												
Financial liabilities at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Financial liabilities held for trading purposes	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss on initial recognition	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives												
Assets												
Financial assets at fair value through profit or loss	\$6,639	\$ -	\$6,639	\$ -	\$1,330	\$ -	\$1,330	\$ -	\$677	\$ -	\$677	\$ -
Hedging financial assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Liabilities												
Financial liabilities at fair value through profit or loss	\$5,621	\$ -	\$5,621	\$ -	\$613	\$ -	\$613	\$ -	\$3,837	\$ -	\$3,837	\$ -
Hedging financial liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$20,845,644	\$2,856,511	\$17,989,133	\$ -	\$20,649,924	\$3,757,856	\$16,892,068	\$ -	\$13,414,328	\$802,859	\$12,611,469	\$ -



- (3) Changes in the composition of financial instruments classified in Level 3 for fair value measurement: not applicable.
- (4) Transfer between Level 1 and Level 2:
No transfer between Level 1 and Level 2 financial assets and liabilities classified for fair value measurement purpose took place for the years ended 2013 and 2012.
- (5) Sensitivity analysis of Level 3 fair value if reasonably possible alternative assumptions are used: not applicable.
- (6)

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

8.1 Overview

The primary objectives of the Bank and subsidiaries' risk management approach are to service customers whilst ensuring that the related business targets are met, maintaining the overall risk appetite and ensuring compliance with external regulatory requirements. Ultimately, the Bank and subsidiaries aim to achieve effective risk diversification, transfer and hedging whilst creating a three-way win situation for customers, shareholders and employees. Major risks confronting the Bank including on- and off-balance-sheet credit risks, market risks (including interest rate, exchange rate, beneficiary securities and product risks) and liquidity risks.

The Bank and subsidiaries have put in place written risk management policies or risk control procedures, which were reviewed and adopted by the Board of Directors in order to effectively identify, measure, monitor and control credit, market and liquidity risks.

8.2 Risk Management Structure

The Risk Management Department of the Bank and subsidiaries manage risks in accordance with the risk management policies approved by the Board of Directors. The Risk Management Department works closely with business departments to identify, evaluate and hedge against the various financial risks. The Board of Directors puts in place written risk management policies, which cover specific risk exposures such as exchange rate risk, interest rate risk, credit risk, and risks arising from derivative and non-derivative transactions. On the other hand, Internal Audit is jointly responsible for conducting independent audits on risk management practices and the control environment.

8.3 Credit Risk

(1) The sources and definition of credit risk

The Bank and subsidiaries are exposed to credit risk due to default on contracts by a client or a counterparty, which results in financial losses suffered by the Bank and subsidiaries. The sources of credit risks include on- and off-balance-sheet assets and liabilities. A significant portion of credit risks originate from discounts and loans, credit card business, due from other banks and investments in debt instruments and derivatives. The major off-balance-sheet items which expose the Bank and subsidiaries to credit risk are financial guarantees, acceptances, letters of credit and loan guarantees.

(2) Credit risk management policies

In order to ensure that credit risk is controlled with an acceptable level, the Bank's Credit Risk Management Guidelines provide that the scope of credit risk management shall cover the management of credit risk arising from on- and off-balance-sheet asset and liability items as well as credit risk arising from trading-book and banking-book businesses. One of the credit risk management objectives is to maintain adequate capital to cover credit risk to better manage credit risk faced by the Bank and subsidiaries. It is critical to ensure internal control procedures are appropriately carried out to ensure that credit approval and investments are appropriately managed, which in turn will ensure that the various credit exposures comply with the statutory requirements.

Credit risk management procedures and measurement of credit risk for the Bank's and subsidiaries' primary business activities are explained as follows:

A. Credit extension (including loan commitments and guarantees)

Explanations are provided as follows by the categories credit assets and credit rating:

(A) Types of credit assets

The Bank and subsidiaries classified credit assets into five categories. With the exception of normal credit assets which are classified as "Category One" assets, the remaining unsound credit that required special attention was evaluated based on the

status of the creditor's right, loan collaterals and the length of time overdue, and classified as "Category Two- Special Mention", "Category Three- Substandard", "Category Four- Doubtful" and "Category Five- Loss". The Bank and subsidiaries have put in place the "Operational Guidelines for Evaluation of Credit Assets" and adopt the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" as the basis for managing problem loans and collection of overdue credit.

(B) Credit rating

The Bank and subsidiaries have formulated a credit rating scale and related rules based on business attributes and the size of operation to manage risks.

Corporate borrowers are grouped into eight categories according to their respective credit rating, while individual borrowers are grouped in terms of credit quality as follows according to the types of products and the borrower's credit rating (a) Home loan borrowers: four categories "excellent", "good", "fair" and "special approval"; (b) Others: seven categories of repayment capabilities- excellent, very strong, strong, satisfactory, weak, very weak and unrated.

B. Due from banks and call loan to banks

The Bank and subsidiaries assess the credit rating of the counterparty and refer to rating information provided by external rating agencies in Taiwan and overseas prior to undertaking a transaction. Each counterparty is assigned a rating and different levels of credit risk exposures.

C. Investment in debt instruments and derivatives

The Bank and subsidiaries manage credit risk arising from debt instruments by assessing the credit rating of debt instruments provided by external rating agencies, the credit quality of bonds, status of a region and counterparty credit risks in order to identify credit risk associated with these types of instruments.

The Bank and subsidiaries undertake derivative transactions with counterparties that are financial institutions. The majority of these financial institutions have investment-grade rating or above. The Bank and subsidiaries manage credit risk by controlling a counterparty's credit limit (including credit limit for call loans); any counterparty that is unrated or does not have an investment-grade rating must be assessed individually. If the counterparty is an individual customer, the risk exposure limit and terms applicable to such derivative instruments approved in accordance with general credit approval procedures are managed to control counterparty credit risk.

The Bank rates the credit quality of debt instruments and derivatives as follows:

(A) TWD debt instruments (without taking into account valuation adjustment and accumulated impairment loss)

Credit Rating
twAAA, government bond and NCD issued by the Central Bank
twAA+ ~twAA-
twA+ ~twA-
twBBB+ ~twBBB-
Below or unrated

(B) Foreign-currency debt instruments (without taking into account valuation adjustment and accumulated impairment loss)

Credit Rating
Aaa
Aa1~Aa3
A1~A3
Baa1~Baa3
Below and unrated



(3) Credit risk hedging or mitigation policy

A. Collateral

The Bank and subsidiaries implement a series of policies and measures to reduce credit risk among which one common practice is to request the borrower to provide collateral. In order to protect our credit claims, the Bank and subsidiaries have stipulated guidelines governing the range of collaterals accepted by the Bank and the appraisal, management and disposal of collaterals. Such guidelines are used as the basis for managing the valuation of collaterals and calculation of the collateral to loan value amount. On the other hand, the loan agreement contains credit guarantee provision, collateral clauses and offsetting clauses to clearly define the acceptable terms with regard to decrease in credit limit, moving forward the maturity date or treating the whole outstanding balance as matured and offsetting the borrower's liabilities against the borrower's deposits, if any, held at the Bank or subsidiaries when a credit event occurs in order to reduce credit risk.

Collaterals provided as security for other non-credit loans shall be determined according to the nature of the financial instrument. Only asset-backed securities and other similar financial instruments may be secured by an asset pool.

B. Control of credit risk limit and risk concentration

The Bank and subsidiaries stipulate respective credit limits for loans granted to a single counterparty and a single group to avoid concentration of risks. The Bank's Investment Policy and Regulations Governing Control of Risks Associated with Equity Investments also include provisions stipulating limits on investments in a single individual (business entity) or a single affiliated enterprise (group). The Bank and subsidiaries have also put in place credit limits applicable to each respective industry, enterprise group and county to control asset concentration risks. Concentration of credit risk with respect to a single counterparty, enterprise group, affiliated enterprise, industry, and ultimately country is monitored by an integrated system.

C. Net settlement agreement

The Bank and subsidiaries settle transactions based on gross amounts but may separately enter into a net settlement agreement with the counterparty. In the event of counterparty default, all transactions with the counterparty will be terminated and be settled by net amount to further reduce credit risk.

(4) Maximum exposure to credit risk

The maximum exposure to credit risk arising from on-balance-sheet assets not secured by collateral or other credit enhancement instruments is represented by the assets' carrying amount. The maximum exposure to credit risk arising from off-balance-sheet assets (not taking account collateral or other credit enhancement instruments and the maximum irrevocable credit risk exposure) is listed as follows:

Off-balance-sheet Items	Maximum Credit Exposure		
	December 31, 2013	December 31, 2012	January 1, 2012
Irrevocable loan commitments	11,788,456	9,870,367	8,089,502
Irrevocable credit card commitments	6,612	6,084	6,096
Stand-by letter of credit	1,357,740	1,841,161	1,305,662
Financial guarantees	4,128,681	4,995,309	4,468,668
Total	17,281,489	16,712,921	13,869,928

The Bank's and subsidiaries' management considers that, upon evaluation, it is possible to constantly control and minimise the credit risk exposure arising from off-balance-sheet items due to the fact that the Bank and subsidiaries adopt more stringent credit review procedures and conduct regular post-loan reviews.

(5) Concentration of credit risk exposures

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet

contractual obligations is uniformly affected by changes in economic or other conditions.

Credit risk concentrations arise from the Bank's and subsidiaries' assets, liabilities, or off-balance-sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories, which include credit, loans and deposits, call loan to banks, investments, receivables and derivatives. As of December 31, 2013 and 2012 and January 1, 2012, there was significant concentration of credit risk arising from loans to the Kaohsiung City Government totaling \$42,018,671 thousand, representing 22.70% of total loans, NT\$ 40,639,868 thousand, representing 23.85% of total loans and \$42,458,572 thousand, representing 24.41% of total loans, respectively. Information on significant concentration of credit risks of the Bank's and subsidiaries' other credit assets (including discounts and loans, overdue accounts that are not transferred from loans, remittances purchased, guarantee receivable, L/C receivable, acceptances receivable and factoring receivable- non-recourse) by industry, region and type of collaterals is summarized as follows:

A. By industry:

Type of Industry	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
1. Private enterprise	67,214,303	36.32	63,678,621	37.37	63,981,999	36.78
2. Public-sector enterprise	3,305,550	1.79	3,455,991	2.03	3,797,659	2.18
3. Governmental organisation	42,028,254	22.71	40,653,784	23.86	42,476,822	24.42
4. Not-for-profit organisation	248,077	0.13	107,049	0.06	1,865,774	1.07
5. Private individual	61,841,595	33.41	54,005,042	31.69	53,696,927	30.87
6. Financial institutions	10,445,516	5.64	8,512,202	4.99	8,147,755	4.68
Total	185,083,295	100.00	170,412,689	100.00	173,966,936	100.00

B. By region:

Region	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
R.O.C.	171,333,240	92.57	160,423,242	94.14	165,701,477	95.25
Unite States	5,979,614	3.23	3,979,117	2.33	2,985,294	1.72
Asia	6,250,123	3.38	4,156,248	2.44	3,746,870	2.15
Europe	871,028	0.47	798,463	0.47	560,180	0.32
Africa	34,076	0.02	550,005	0.32	570,692	0.33
Oceania	615,214	0.33	505,614	0.30	402,423	0.23
Total	185,083,295	100.00	170,412,689	100.00	173,966,936	100.00

C. By Collateral:

Type of Collateral	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
Unsecured	84,216,257	45.50	82,470,441	48.39	86,690,617	49.83
Secured	100,867,038	54.50	87,942,248	51.61	87,276,319	50.17
– Financial collateral	6,134,460	3.31	6,210,095	3.64	6,981,228	4.01
– Accounts receivable	590,466	0.32	502,838	0.30	352,777	0.20
– Real estate property	81,597,125	44.09	69,110,244	40.55	67,883,058	39.02
– Guarantee	10,715,982	5.79	9,567,167	5.61	9,047,294	5.20
– Other	1,829,005	0.99	2,551,904	1.50	3,011,962	1.73
Total	185,083,295	100.00	170,412,689	100.00	173,966,936	100.00



(6) Credit quality and impairment assessment of financial assets

Financial assets held by the Bank and subsidiaries including cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, bills and bonds purchased under agreements to resell, refundable deposits, operating bond and clearing and settlement fund are assets having very low credit risk owing to the good credit rating of counterparties.

In addition to the above, analysis of the credit quality of other financial assets is as follows:

- A. According to the concept of the analysis of credit quality of financial assets provided in IFRS 7, "past due" refers to the situation where the counterparty has failed to make payment when the contract matures. For example, if the principal or interest repayments are past due beyond the reasonable grace period, they are deemed "past due".
- B. IFRS 7 also provides that "impairment" refers to the situation where financial assets have become impaired as of the reporting dates, that is, there is objective evidence indicating impairment.
- C. For the purpose of analyzing the credit quality of financial assets, "impaired" financial assets are those as defined in (2) above and do not include all financial assets over which an provision for impairment loss has been made.

(A) Credit quality of accounts receivable

On-balance-sheet Receivables	Amount neither past due nor impaired (A)										Subtotal (A)+(B)	Amount past due but not impaired (B)	Subtotal (A)+(B)	Amount Impaired (C)	Total (A)+(B)+(C)		
	Credit card payments receivable	Accrued Revenue	Interest Receivable	Dividends Receivable	Acceptances Receivable	Factoring- non-recourse	Foreign Exchange Receivable	Other Receivables	Subtotal								
December 31, 2013	175,427	136,269	370,611	—	34,778	—	—	15,816	732,901	5,690	738,591	73,442	812,033				
December 31, 2012	207,212	138,672	402,133	—	150,811	—	145	1,681	900,654	3,451	904,105	70,122	974,227				
January 1, 2012	198,820	122,091	342,949	—	124,776	138,040	131	5,200	932,007	5,892	937,899	14,302	952,201				
Receivables	Amount provided for impairment loss (D)										Subtotal					Net (A)+(B)+(C)-(D)	
	With objective evidence of impairment										Subtotal						
	With no objective evidence of impairment										Subtotal						
December 31, 2013	45,475										54,533					757,500	
December 31, 2012	34,587										43,341					930,886	
January 1, 2012	7,165										14,676					937,525	

(B) Credit quality of discounts and loans

On-balance-sheet Items Discounts and loans Overdue accounts that are not transferred from loans Off-balance-sheet items Commitments and guarantees receivable L/C receivable Total	Amount neither past due nor impaired (A)	Amount past due but not impaired (B)	Amount impaired (C)	Total (A)+(B)+(C)	Amount provided for impairment loss (D)		Net (A)+(B)+(C)-(D)
					With objective evidence of impairment	With no objective evidence of impairment	
December 31, 2013	176,773,121	678,748	2,090,701	179,542,570	596,369	684,726	178,261,475
	—	—	18,898	18,898	9,397	—	9,501
	4,104,659	24,022	—	4,128,681	—	51,300	4,077,381
	1,353,319	4,421	—	1,357,740	—	—	1,357,740
	182,231,099	707,191	2,109,599	185,047,889	605,766	736,026	183,706,097

December 31, 2012	Amounts neither past due nor impaired (A)	Amounts past due but not impaired (B)	Amount impaired (C)	Total (A)+(B)+(C)	Amount provided for impairment loss (D)		Net (A)+(B)+(C)-(D)
					With objective evidence of impairment	With no objective evidence of impairment	
<u>On-balance-sheet Items</u> Discounts and loans	160,373,251	686,015	2,337,653	163,396,919	676,598	675,976	162,044,345
Overdue accounts that are not transferred from loans	—	—	28,489	28,489	11,520	—	16,969
<u>Off-balance-sheet Items</u> Commitments and guarantees receivable	4,968,014	27,295	—	4,995,309	—	15,000	4,980,309
L/C receivable	1,815,964	25,197	—	1,841,161	—	—	1,841,161
Total	167,157,229	738,507	2,366,142	170,261,878	688,118	690,976	168,882,784

January 1, 2012	Amounts neither past due nor impaired (A)	Amounts past due but not impaired (B)	Amount impaired (C)	Total (A)+(B)+(C)	Amount provided for impairment loss (D)		Net (A)+(B)+(C)-(D)
					With objective evidence of impairment	With no objective evidence of impairment	
<u>On-balance-sheet Items</u> Discounts and loans	164,000,592	940,586	2,958,544	167,899,722	860,159	823,693	166,215,870
Overdue accounts that are not transferred from loans	—	—	30,068	30,068	20,061	—	10,007
<u>Off-balance-sheet Items</u> Commitments and guarantees receivable	4,448,639	20,029	—	4,468,668	—	—	4,468,668
L/C receivable	1,280,903	24,759	—	1,305,662	—	—	1,305,662
Total	169,730,134	985,374	2,988,612	173,704,120	880,220	823,693	172,000,207



(C) Credit quality of discounts and loans neither past due nor impaired according to individual client rating:

December 31, 2013	Amount Neither Past Due Nor Impaired													Total
	Mortgages with "Excellent" credit rating	Mortgages with "good" credit rating	Mortgages with "fair" credit rating	Mortgages with special approval	Excellent repayment capabilities	Very Strong repayment capabilities	Strong repayment capabilities	Satisfactory repayment capabilities	Weak repayment capabilities	Very weak repayment capabilities	Unrated	Total		
Consumer Finance														
— Residential mortgage	12,926,951	1,501,339	1,064,522	9,695,158	—	—	—	—	—	—	5,890,663	31,078,633		
— Cash card	—	—	—	—	352,115	560,920	118,691	8,647	364	549	—	1,041,286		
— Microcredit	—	—	—	—	130,040	553,896	67,688	62,609	85,038	6,190	66,598	972,059		
— Student loan	—	—	—	—	—	—	—	—	—	—	5,913,442	5,913,442		
— Other	—	—	—	—	2,923,517	12,554,457	2,696,994	2,259,096	821,987	109,802	225,157	21,591,010		
Total	12,926,951	1,501,339	1,064,522	9,695,158	3,405,672	13,669,273	2,883,373	2,330,352	907,389	116,541	12,095,860	60,596,430		

December 31, 2013	Amount Neither Past Due Nor Impaired													Total
	Loans to Municipal Government	Excellent repayment capabilities	Very Strong repayment capabilities	Strong repayment capabilities	Above-average repayment capabilities	Satisfactory repayment capabilities	Weak repayment capabilities	Very weak repayment capabilities	Unrated	Total				
Corporate Finance														
— Secured	—	58,807	1,053,776	1,513,714	6,739,028	12,083,103	8,151,153	9,751,961	6,974,948	46,326,490				
— Unsecured	42,018,671	722,293	1,008,464	1,322,058	7,422,840	6,387,689	1,598,921	2,043,970	12,783,273	75,308,179				
Total	42,018,671	781,100	2,062,240	2,835,772	14,161,868	18,470,792	9,750,074	11,795,931	19,758,221	121,634,669				

December 31, 2012	Amount Neither Past Due Nor Impaired													Total
	Mortgages with "Excellent" credit rating	Mortgages with "good" credit rating	Mortgages with "fair" credit rating	Mortgages with special approval	Excellent repayment capabilities	Very Strong repayment capabilities	Strong repayment capabilities	Satisfactory repayment capabilities	Weak repayment capabilities	Very weak repayment capabilities	Unrated	Total		
Consumer Finance														
— Residential mortgage	13,547,289	1,552,852	1,180,811	5,736,780	—	—	—	—	—	—	6,089,039	28,106,771		
— Cash card	—	—	—	—	625,515	496,246	51,633	6,338	844	579	—	1,181,155		
— Microcredit	—	—	—	—	199,638	516,381	97,463	53,456	79,978	5,182	79,621	1,031,719		
— Student loan	—	—	—	—	—	—	—	—	—	—	6,113,018	6,113,018		
— Other	—	—	—	—	3,573,201	7,966,945	1,810,001	1,757,679	397,497	269,330	437,417	16,212,070		
Total	13,547,289	1,552,852	1,180,811	5,736,780	4,398,354	8,979,572	1,959,097	1,817,473	478,319	275,091	12,719,095	52,644,733		

		Amount Neither Past Due Nor Impaired											
		Loans to Municipal Government	Excellent repayment capabilities	Very Strong repayment capabilities	Strong repayment capabilities	Above-average repayment capabilities	Satisfactory repayment capabilities	Weak repayment capabilities	Very weak repayment capabilities	Unrated	Total		
December 31, 2012													
Corporate Finance													
— Secured	—	—	444,368	1,668,385	2,106,402	6,939,225	11,756,941	5,412,529	9,159,028	3,883,791	41,370,669		
— Unsecured	40,639,868	1,593,454	1,685,667	2,666,397	8,328,337	5,350,967	1,332,404	3,104,856	8,439,877	73,141,827			
Total	40,639,868	2,037,822	3,354,052	4,772,799	15,267,562	17,107,908	6,744,933	12,263,884	12,323,668	114,512,496			

		Amount Neither Past Due Nor Impaired											
		Mortgages with "Excellent" credit rating	Mortgages with "good" credit rating	Mortgages with "fair" credit rating	Mortgages with special approval	Excellent repayment capabilities	Very Strong repayment capabilities	Strong repayment capabilities	Satisfactory repayment capabilities	Weak repayment capabilities	Very weak repayment capabilities	Unrated	Total
January 1, 2012													
Consumer Finance													
— Residential mortgage	14,113,423	1,210,158	1,128,354	6,080,896	—	—	—	—	—	—	6,436,434	28,969,265	
— Cash card	—	—	—	—	719,891	583,024	62,497	8,353	3,150	2,495	2,081	1,381,491	
— Microcredit	—	—	—	—	248,212	318,208	131,163	88,183	2,733	10,483	92,377	891,359	
— Student loan	—	—	—	—	—	—	—	—	—	—	6,246,864	6,246,864	
— Other	—	—	—	—	3,315,103	7,253,295	1,629,249	1,749,348	200,605	259,113	395,880	14,802,593	
Total	14,113,423	1,210,158	1,128,354	6,080,896	4,283,206	8,154,527	1,822,909	1,845,884	206,488	272,091	13,173,636	52,291,572	

		Amount Neither Past Due Nor Impaired											
		Loans to Municipal Government	Excellent repayment capabilities	Very Strong repayment capabilities	Strong repayment capabilities	Above-average repayment capabilities	Satisfactory repayment capabilities	Weak repayment capabilities	Very weak repayment capabilities	Unrated	Total		
January 1, 2012													
Corporate Finance													
— Secured	—	—	578,130	2,609,863	2,225,688	6,289,285	11,068,936	5,307,835	9,214,288	7,042,694	44,336,719		
— Unsecured	42,458,572	1,706,722	2,046,329	2,726,778	8,729,050	6,018,434	1,620,164	4,380,730	4,380,730	3,415,064	73,101,843		
Total	42,458,572	2,284,852	4,656,192	4,952,466	15,018,335	17,087,370	6,927,999	13,595,018	10,457,758	117,438,562			



(D) Credit quality of investment in securities

December 31, 2013	Amount Neither Past Due Nor Impaired				Amount past due but not impaired (B)	Amount impaired (C)	Total (A)+(B)+(C)	Amount provided for impairment loss (D)	Net (A)+(B)+(C)-(D)
	twAAA~twA- & AAA~A3	twBBB+~twBBB- & Baa1 ~ Baa3	Below or unrated	Subtotal (A)					
Available-for-sale financial assets	18,184,727	811,437	253,438	19,249,602	—	19,249,602	—	19,249,602	
— Investment in bonds	7,984,049	811,437	—	8,795,486	—	8,795,486	—	8,795,486	
— Investment in stocks	—	—	192,515	192,515	—	192,515	—	192,515	
— Other	10,200,678	—	60,923	10,261,601	—	10,261,601	—	10,261,601	
Held-to-maturity financial assets	—	—	—	—	—	—	—	—	
— Investment in bonds	—	—	—	—	—	—	—	—	
— Other	—	—	—	—	—	—	—	—	
Other Financial Assets	119,400	130,144	1,221,547	1,471,091	—	1,674,417	147,332	1,527,085	
— Investment in stocks	—	—	1,118,567	1,118,567	—	1,118,567	—	1,118,567	
— Investment in bonds	119,400	130,144	102,980	352,524	—	555,850	147,332	408,518	
— Other	—	—	—	—	—	—	—	—	

December 31, 2012	Amount Neither Past Due Nor Impaired			Subtotal (A)	Amount past due but not impaired (B)	Amount impaired (C)	Total (A)+(B)+(C)	Amount provided for impairment loss (D)	Net (A)+(B)+(C)-(D)
	twAAA~twA- & AAA~A3	twBBB+~twBBB- & Baa1 ~ Baa3	Below or unrated						
Available-for-sale financial assets	18,378,533	556,785	255,777	19,191,095	—	—	19,191,095	—	19,191,095
— Investment in bonds	9,177,460	556,785	—	9,734,245	—	—	9,734,245	—	9,734,245
— Investment in stocks	—	—	127,482	127,482	—	—	127,482	—	127,482
— Other	9,201,073	—	128,295	9,329,368	—	—	9,329,368	—	9,329,368
Held-to-maturity financial assets	—	—	—	—	—	—	—	—	—
— Investment in bonds	—	—	—	—	—	—	—	—	—
— Other	—	—	—	—	—	—	—	—	—
Other Financial Assets	116,140	—	1,364,225	1,480,365	—	266,336	1,746,701	161,983	1,584,718
— Investment in stocks	—	—	1,137,137	1,137,137	—	50,000	1,187,137	25,000	1,162,137
— Investment in bonds	116,140	—	227,088	343,228	—	216,336	559,564	136,983	422,581
— Other	—	—	—	—	—	—	—	—	—

January 1, 2012	Amount Neither Past Due Nor Impaired			Amount past due but not impaired (B)	Amount impaired (C)	Total (A)+(B)+(C)	Amount provided for impairment loss (D)	Net (A)+(B)+(C)-(D)
	twAAA~twA- & AAA~A3	twBBB+~twBBB- & Baa1 ~ Baa3	Below or unrated					
			Subtotal (A)					
Available-for-sale financial assets	11,497,369	200,137	104,810	11,802,316	—	11,802,316	—	11,802,316
— Investment in bonds	4,446,671	200,137	—	4,646,808	—	4,646,808	—	4,646,808
— Investment in stocks	—	—	93,603	93,603	—	93,603	—	93,603
— Other	7,050,698	—	11,207	7,061,905	—	7,061,905	—	7,061,905
Held-to-maturity financial assets	5,182,831	383,705	—	5,566,536	—	5,566,536	—	5,566,536
— Investment in bonds	5,182,831	383,705	—	5,566,536	—	5,566,536	—	5,566,536
— Other	—	—	—	—	—	—	—	—
Other Financial Assets	121,120	—	1,456,549	1,577,669	1,636,257	3,213,926	1,513,416	1,700,510
— Investment in stocks	—	—	1,187,137	1,187,137	—	1,187,137	—	1,187,137
— Investment in bonds	121,120	—	269,412	390,532	1,636,257	2,026,789	1,513,416	513,373
— Other	—	—	—	—	—	—	—	—

(7) Analysis of the aging of financial assets already past due but not yet impaired:

Delays in processing payments by borrowers and other administrative reasons could result in financial assets being past due but not yet impaired. According to the Bank and its subsidiary's internal risk management policies, financial assets past due within 90 days are not considered impaired, unless other evidences indicate otherwise.

The aging of financial assets already past due but not yet impaired is analysed as follows:

Item	December 31, 2013			December 31, 2012			January 1, 2012		
	Overdue for less than 1 month	Overdue for 1~3 months	Total	Overdue for less than 1 month	Overdue for 1~3 months	Total	Overdue for less than 1 month	Overdue for 1~3 months	Total
Accounts receivable	3,926	1,764	5,690	1,651	1,800	3,451	2,554	3,338	5,892
— Credit cards	2,602	378	2,980	349	94	443	951	—	951
— Interest receivable	1,324	1,386	2,710	1,302	1,706	3,008	1,603	3,338	4,941
Discounts and loans	433,626	273,565	707,191	423,430	315,077	738,507	481,920	503,454	985,374
Consumer Finance	387,149	227,086	614,235	376,862	265,506	642,368	397,305	303,983	701,288
— Residential mortgage	204,101	90,684	294,785	212,852	134,206	347,058	254,850	219,353	474,203
— Cash card	2,687	294	2,981	7,689	597	8,286	6,958	600	7,558
— Microcredit	3,606	1,850	5,456	4,903	2,773	7,676	7,821	3,610	11,431
— Student loan	159,308	125,248	284,556	132,330	116,226	248,556	125,538	73,390	198,928
— Other	17,447	9,010	26,457	19,088	11,704	30,792	2,138	7,030	9,168
Corporate Finance	46,477	46,479	92,956	46,568	49,571	96,139	84,615	199,471	284,086
— Secured	25,132	14,663	39,795	4,803	18,887	23,690	13,548	109,099	122,647
— Unsecured	21,345	31,816	53,161	41,765	30,684	72,449	71,067	90,372	161,439



(8) Analysis of impairment of financial assets

A. Investment in bonds with no active market held by the Bank and subsidiaries were determined to have impaired upon assessment. As of December 31, 2013 and 2012 and January 1, 2012, accumulated impairment recognised by the Bank and subsidiaries amounted to \$147,332 thousand, \$ 136,983 thousand and \$1,513,416 thousand, respectively.

B. Analysis of impairment of discounts and loans and accounts receivable held by the Bank and subsidiaries by client were as follows:

Item	Total Discounts and Loans			Allowance for Doubtful Account		
	December 31, 2013	December 31, 2012	January 1, 2012	December 31, 2013	December 31, 2012	January 1, 2012
With objective evidence of impairment	1,195,438	1,164,329	1,829,825	423,170	404,287	542,222
	895,263	1,173,324	1,128,719	173,199	272,311	317,937
With no objective evidence of impairment	177,451,869	161,059,266	164,941,178	684,726	675,976	823,693
Total	179,542,570	163,396,919	167,899,722	1,281,095	1,352,574	1,683,852

Item	Total Accounts Receivable			Allowance for Doubtful Account		
	December 31, 2013	December 31, 2012	January 1, 2012	December 31, 2013	December 31, 2012	January 1, 2012
With objective evidence of impairment	69,390	64,831	5,490	43,591	29,839	4,533
	4,052	5,291	8,812	1,884	4,748	2,632
With no objective evidence of impairment	750,449	915,922	948,187	9,058	8,754	7,511
Total	823,891	986,044	962,489	54,533	43,341	14,676

(9) Foreclosed Collaterals Management Policy

Properties foreclosed by the Bank and subsidiaries were land and buildings. As of December 31, 2013 and 2012 and January 1, 2012, the carrying amount of foreclosed properties was nil for all respective balance-sheet dates.

The foreclosed properties are sold where practicable. Proceeds from sale of foreclosed properties are offset against the outstanding balance. Foreclosed properties are listed under other assets on the balance sheet.

(10) Disclosures in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks" :
 A. Asset quality of non-performing loans and overdue accounts

Year / Month		December 31, 2013					
Type of Business	Amount Of Non-Performing Loan (Note 1)	Total Loans	Non-Performing Loan Ratio (Note 2)	Allowance for Doubtful Accounts	Bad Debt Coverage Ratio (Note 3)		
Corporate Finance							
Secured	570,603	37,246,468	1.53	531,175	93.09		
Unsecured	84,878	80,455,133	0.11	581,432	685.02		
Residential mortgages (Note 4)	172,476	31,704,820	0.54	101,021	58.57		
Cash cards	—	1,044,267	—	523	—		
Consumer Finance							
Micro credit (Note 5)	48,198	1,469,984	3.28	20,091	41.68		
Other (Note 6)							
Secured	198,721	25,533,161	0.78	45,710	23.00		
Unsecured	2,092	2,088,737	0.10	1,143	54.64		
Loans total	1,076,968	179,542,570	0.60	1,281,095	118.95		
	Amount of Overdue Accounts	Accounts Receivable Balance	Overdue Account Ratio	Allowance for Credit Loss	Bad Debt Coverage		
Credit Card	283	164,681	0.17	1,792	633.22		
Non-recourse factoring (Note 7)	—	—	—	—	—		

Year / Month		December 31, 2012					
Type of Business	Non-Performing Loan Amount (Note 1)	Total Loans	Non-Performing Loan Ratio (Note 2)	Allowance for Doubtful Accounts	Bad Debt Coverage Ratio (Note 3)		
Corporate Finance							
Secured	321,317	31,112,323	1.03	327,920	102.05		
Unsecured	563,769	78,136,098	0.72	863,772	153.21		
Residential mortgages (Note 4)	259,285	28,873,519	0.90	98,242	37.89		
Cash cards	—	1,189,442	—	595	—		
Consumer Finance							
Micro credit (Note 5)	49,486	1,554,081	3.18	18,951	38.30		
Other (Note 6)							
Secured	197,534	20,703,254	0.95	41,700	21.11		
Unsecured	3,169	1,828,202	0.17	1,394	43.99		
Loans Total	1,394,560	163,396,919	0.85	1,352,574	96.99		
	Amount of Overdue Accounts	Accounts Receivable Balance	Overdue Account Ratio	Allowance for Credit Loss	Bad Debt Coverage		
Credit cards	—	198,278	—	1,617	—		
Non-recourse factoring (Note 7)	—	—	—	—	—		



Year / Month	January 1, 2012					
	Type of Business	Amount Of Non-Performing Loan (Note 1)	Total Loans	Non-Performing Loan Ratio (Note 2)	Allowance for Doubtful Accounts	Bad Debt Coverage Ratio (Note 3)
Corporate Finance	Secured	394,036	32,609,185	1.21	463,273	117.57
	Unsecured	814,361	81,442,210	1.00	1,015,195	124.66
Consumer Finance	Residential mortgages (Note 4)	294,349	29,861,898	0.99	107,357	36.47
	Cash cards	—	1,389,049	—	695	—
Loans Total	Micro credit (Note 5)	49,051	1,623,691	3.02	26,967	54.98
	Other (Note 6)	186,816	19,407,950	0.96	67,453	36.11
Loans Total	Secured	2,644	1,565,739	0.17	2,912	110.14
	Unsecured	1,741,257	167,899,722	1.04	1,683,852	96.70
Credit cards		Amount of Overdue Accounts	Accounts Receivable Balance	Overdue Account Ratio	Allowance for Credit Loss	Bad Debt Coverage
Non-recourse factoring (Note 7)		10	189,386	0.01	1,551	15.510

Note 1: The amount of non-performing loans was presented in accordance with the "Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". The amount included in overdue accounts for credit cards was represented in accordance with the Banking Bureau (4) Letter No.0944000378 dated July 6, 2005.

Note 2: Non-performing loan ratio= non-performing loans/ total loans. Overdue account ratio for credit cards=overdue accounts / balance of receivables.
 Note 3: Coverage ratio for loans= allowance for doubtful accounts of loans/ amount of non-performing loans. Coverage ratio for credit card accounts receivables =allowance for credit loss /amount of overdue accounts.

Note 4: Residential mortgage is a form of financing secured by a residential property acquired (owned) by the borrower or his or her spouse or minor children, obtained by the borrower from the Bank for the purpose of purchasing the property or adding improvements to the dwelling.

Note 5: Micro credit is regulated by the Banking Bureau Letter (4) No. 09440010950, dated December 19, 2005. It is a type of finance other than credit obtained from credit cards or cash cards.

Note 6: Consumer finance – other, refers to other secured or unsecured consumer "loans other than residential mortgages", "cash cards and micro credit" and "excludes credit cards".

Note 7: Pursuant to the Banking Bureau (5) Letter No. 094000494 dated July 19, 2005, the amount of without recourse factoring will be recognized as overdue accounts within three months after the factor or insurance company resolved not to compensate the loss.

Non-performing loans or overdue receivables exempted from declaration to the competent authority:

Item	December 31, 2013		December 31, 2012		January 1, 2012	
	Balance of Non-performing Loans Exempt	Balance of Overdue Receivables Exempt	Balance of Non-performing Loans Exempt	Balance of Overdue Receivables Exempt	Balance of Non-performing Loans Exempt	Balance of Overdue Receivables Exempt
Amount exempt as a result of debt negotiation and performance in accordance with agreement (Note 1)	1,062	196	1,422	451	1,911	663
Amount exempt as a result of debt liquidation and restructuring plan (Note 2)	144,976	414	153,452	296	159,120	349
Total	146,038	610	154,874	747	161,031	1,012

Note 1: The amounts of non-performing loans and overdue receivables disclosed as a result of being exempt under debt negotiation arrangements pursuant to the Explanatory Letter Jin-Guan-Yin (1) No. 09510001270 dated April 25, 2006.

Note 2: The amounts of non-performing loans and overdue receivables disclosed as a result of being exempt under the debt liquidation and restructuring plan pursuant to the Explanatory Letter Jin-Guan-Yin (1) No. 09700318940 of the FSC dated September 15, 2008.

B. Concentration of credit risk exposures of the Bank and subsidiaries:

Year	December 31, 2013			December 31, 2012			January 1, 2012		
	Industry (Note 2)	Total Loans Outstanding (Note 3)	As a percent of current net worth (%)	Industry (Note 2)	Total Loans Outstanding (Note 3)	As a percent of current net worth (%)	Industry (Note 2)	Total Loans Outstanding (Note 3)	As a percent of current net worth (%)
1	A Group (Sports Stadium Industry)	1,725,802	16.06%	A Group (Sports Stadium Industry)	1,871,281	17.75%	A Group (Sports Stadium Industry)	1,807,500	18.18%
2	B Group (Real Estate Development Industry)	1,277,040	11.88%	B Group (Ship and Parts Manufacturing Industry)	1,419,412	13.46%	B Group (Real Estate Development Industry)	1,688,340	16.98%
3	C Group (Ship and Parts Manufacturing Industry)	1,272,360	11.84%	C Group (Real Estate Development Industry)	1,000,959	9.49%	C Group (Ship and Parts Manufacturing Industry)	1,472,203	14.81%
4	D Group (Real Estate Development Industry)	1,233,484	11.48%	D Group (Real Estate Development Industry)	945,500	8.97%	D Group (Petroleum and Charcoal Manufacturing Industry)	1,372,670	13.80%
5	E Group (Other Financial Intermediation Industry)	925,665	8.61%	E Group (Iron and Steel Rolls over Extends and Crowding Industry)	915,972	8.69%	E Group (Iron and Steel Rolls over Extends and Crowding Industry)	1,143,025	11.50%
6	F Group (Real Estate Development Industry)	896,074	8.34%	F Group (Real Estate Leasing and Sale Industry)	906,856	8.60%	F Group (Investment Consulting Industry)	960,141	9.66%
7	G Group (Investment Consulting Industry)	888,643	8.27%	G Group (Other Financial Intermediation Industry)	749,890	7.11%	G Group (Wastewater (sewerage) Treatment Industry)	716,428	7.21%
8	H Group (Iron and Steel Rolls over Extends and Crowding Industry)	886,360	8.25%	H Sports Stadium	583,305	5.53%	H Group (Aluminium Refinery Industry)	702,596	7.07%
9	I Group (Real Estate Leasing and Sale Industry)	822,291	7.65%	I Group (Other Retail Sale of General Merchandise Industry)	565,274	5.36%	I Group (Automobile Retail Industry)	670,000	6.74%
10	J Group (Other Unclassified Real Estate Industry)	756,000	7.03%	J Group (Automotive Electrical System Manufacturing Industry)	550,000	5.22%	J Group (Industrial Rubber Products Manufacturing Industry)	615,640	6.19%

Note 1: The top ten enterprise groups other than governmental and public-sector enterprises according to their total amounts of outstanding loans.

Note 2: The term "enterprise group" refers to a group of corporate entities as defined by Article 6 of the "Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings".

Note 3: Total outstanding loan amount is the sum of balances of all types of loans (including import negotiation, export negotiation, bills discounted, overdraft, short-term loan, short-term secured loan, margin loans receivable, medium-term unsecured loan, medium-term secured loan, long-term unsecured loan, long-term secured loan and overdue loan), bills purchased, without recourse factoring, acceptances receivable and guaranties.

Note 4: Total loans as a percentage of current net worth: net worth for domestic banks is calculated using the net worth of the Head Office where net worth for branch(es) of a foreign bank in Taiwan shall be calculated using the net worth of the branch(es).



8.4 Liquidity Risk

(1) Sources and definition of liquidity risk

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

(2) Liquidity risk management policy

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

- A. Cashflow gap for obligations falling due within 30 days (incl.).
- B. Cashflow gap for all other maturities.
- C. Provide a deposit reserve in accordance with the regulatory ratio prescribed by the Central Bank.
- D. Liquidity reserve shall not fall below the minimum liquid assets to liabilities ratio for financial institutions prescribed by the Central Bank.
- E. Deposit to loan ratio.
- F. Liabilities purchased (NCD issued) to deposits ratio.

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

- A. Liquidity gap for the respective maturities to total assets ratio.
- B. Deposit reserve ratio provided in accordance with the Central Bank requirements.

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

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

A. Financial assets held for liquidity management

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

B. Maturity analysis of financial liabilities

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

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

December 31, 2012	0- 30 days	31-90 days	91 -180 days	181–365 days	Over 1 year	Total
Due to central bank and other banks	8,460,605	2,342,590	410,712	721,772	—	11,935,679
Funds borrowed from Central and other banks	—	—	—	—	—	—
Bills and bonds sold under agreements to repurchase	12,426	56,488	—	—	—	68,914
Accounts payable	3,632,498	161,981	65,808	63,820	32,815	3,956,922
Deposits and remittances	24,099,879	29,829,229	35,531,120	42,072,412	57,922,839	189,455,479
Bank debentures	—	—	—	—	4,000,000	4,000,000
Other capital outflow upon maturity	63,318	59,261	40,834	16,540	799,391	979,344

January 1, 2012	0- 30 days	31-90 days	91 -180 days	181–365 days	Over 1 year	Total
Due to central bank and other banks	5,711,703	4,377,620	120,362	1,301,911	—	11,511,596
Funds borrowed from Central and other banks	—	—	—	—	—	—
Bills and bonds sold under agreements to repurchase	5,266	87,837	10,104	—	—	103,207
Accounts payable	3,076,723	146,888	65,344	57,894	34,449	3,381,298
Deposits and remittances	23,104,030	33,089,662	31,415,191	51,194,731	55,062,408	193,866,022
Bank debentures	—	—	—	—	4,000,000	4,000,000
Other capital outflow upon maturity	17,681	124,697	7,979	2,584	724,925	877,866

The maturity analysis of demand deposits included in “Deposits and Remittances” in the above table is conducted across different maturity periods based on the past experience of the Bank and subsidiaries. Based on the assumption that all demand deposits must be repaid within the closest maturity, as of December 31, 2013 and 2012 and January 1, 2012, cash outflow



in the next the 0-30 days will increase by \$73,513,518 thousand, \$69,062,232 thousand and \$67,084,752 thousand, respectively.

(4) Maturity analysis of derivative financial liabilities

Derivatives settled in gross amounts

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

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

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

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

December 31, 2012	0- 30 days	31-90 days	91 -180 days	181-365 days	Over 1 year	Total
Financial liabilities at fair value through profit or loss						
– Foreign exchange derivatives	500,795	142,495	231,499	–	–	874,789
– Cash outflow	250,548	71,320	115,650	–	–	437,518
– Cash inflow	250,247	71,175	115,849	–	–	437,271
– Interest rate derivatives	–	–	–	–	–	–
– Cash outflow	–	–	–	–	–	–
– Cash inflow	–	–	–	–	–	–
Derivative financial liabilities for hedging purpose						
– Foreign exchange derivatives	–	–	–	–	–	–
– Cash outflow	–	–	–	–	–	–
– Cash inflow	–	–	–	–	–	–
– Interest rate derivatives	–	–	–	–	–	–
– Cash outflow	–	–	–	–	–	–
– Cash inflow	–	–	–	–	–	–
Cash outflow subtotal	250,548	71,320	115,650	–	–	437,518
Cash inflow subtotal	250,247	71,175	115,849	–	–	437,271
Net cashflow	301	145	(199)	–	–	247

January 1, 2012	0- 0 days	31-90 days	91-180days	181-365days	Over1 year	Total
Financial liabilities at fair value through profit or loss						
– Foreign exchange derivatives	1,685,235	257,729	301,857	–	–	2,244,821
– Cash outflow	812,513	128,382	181,511	–	–	1,122,406
– Cash inflow	872,722	129,347	120,346	–	–	1,122,415
– Interest rate derivatives	–	–	–	–	–	–
– Cash outflow	–	–	–	–	–	–
– Cash inflow	–	–	–	–	–	–
Derivative financial liabilities for hedging purpose						
– Foreign exchange derivatives	–	–	–	–	–	–
– Cash outflow	–	–	–	–	–	–
– Cash inflow	–	–	–	–	–	–
– Interest rate derivatives	–	–	–	–	–	–
– Cash outflow	–	–	–	–	–	–
– Cash inflow	–	–	–	–	–	–
Cash outflow subtotal	812,513	128,382	181,511	–	–	1,122,406
Cash inflow subtotal	872,722	129,347	120,346	–	–	1,122,415
Net cashflow	(60,209)	(965)	61,165	–	–	(9)



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

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

December 31, 2013	Under 1 year	1 – 5 year	More than 5 years	Total
Standby and irrevocable loan commitment	2,640,757	7,922,569	1,225,130	11,788,456
Standby and irrevocable credit card commitment	199	6,413	—	6,612
Unused letter of credit	1,357,740	—	—	1,357,740
Guarantees	2,442,426	1,679,755	6,500	4,128,681
Total	6,441,122	9,608,737	1,231,630	17,281,489

December 31, 2012	Under 1 year	1 – 5 year	More than 5 years	Total
Standby and irrevocable loan commitment	1,754,193	7,162,135	954,039	9,870,367
Standby and irrevocable credit card commitment	110	5,974	—	6,084
Unused letter of credit	1,841,161	—	—	1,841,161
Guarantees	2,967,180	1,871,483	156,646	4,995,309
Total	6,562,644	9,039,592	1,110,685	16,712,921

January 1, 2012	Under 1 year	1 – 5 year	More than 5 years	Total
Standby and irrevocable loan commitment	—	8,089,502	—	8,089,502
Standby and irrevocable credit card commitment	1,084	5,012	—	6,096
Unused letter of credit	1,305,662	—	—	1,305,662
Guarantees	2,678,694	1,789,828	146	4,468,668
Total	3,985,440	9,884,342	146	13,869,928

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

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

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

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

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

December 31, 2012	Under 1 year	1 – 5 year	More than 5 years	Total
Lease agreement commitment				
Operating lease outflow (lessee)	\$60,067	\$61,510	\$1,980	\$123,557
Operating lease inflow (lessor)	5,013	3,380	—	8,393
Capital expenditure commitment	\$ —	\$ —	\$ —	\$ —

January 1, 2012	Under 1 year	1 – 5 year	More than 5 years	Total
Lease agreement commitment				
Operating lease outflow (lessee)	\$64,859	\$105,404	\$8,460	\$178,723
Operating lease inflow (lessor)	4,989	4,645	—	9,634
Capital expenditure commitment	\$ —	\$ —	\$ —	\$ —

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

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

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

December 31, 2012							
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main maturing capital inflow	203,470,437	36,329,123	20,698,009	18,341,068	16,054,941	28,493,786	83,553,510
Main maturing capital outflow	250,943,710	11,796,187	15,195,153	31,852,103	40,350,961	51,898,596	99,850,710
Maturity gap	(47,473,273)	24,532,936	5,502,856	(13,511,035)	(24,296,020)	(23,404,810)	(16,297,200)

January 1, 2012							
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main maturing capital inflow	207,597,650	39,270,845	18,084,434	22,320,748	11,308,489	30,976,325	85,636,809
Main maturing capital outflow	253,739,608	9,079,211	16,191,641	35,136,528	36,033,159	61,306,173	95,992,896
Maturity gap	(46,141,958)	30,191,634	1,892,793	(12,815,780)	(24,724,670)	(30,329,848)	(10,356,087)

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

Unit: US\$ Thousand

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



December 31, 2012						
	Total	1-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main maturing capital inflow	486,732	37,398	39,789	52,262	16,192	341,091
Main maturing capital outflow	539,654	251,777	124,446	70,475	23,167	69,789
Maturity gap	(52,922)	(214,379)	(84,657)	(18,213)	(6,975)	271,302

January 1, 2012						
	Total	1-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Main maturing capital inflow	452,376	74,096	40,955	36,764	5,543	295,018
Main maturing capital outflow	457,817	164,420	194,804	25,378	20,425	52,790
Maturity gap	(5,441)	(90,324)	(153,849)	11,386	(14,882)	242,228

8.5 Market Risk

(1) Sources and definition of market risk

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

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

(2) Market risk management policy

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

The Bank and subsidiaries have put in place a market risk information system to effectively monitor the risk limits of the positions of financial instruments, assess the profit and loss, conduct stress testing and compute the value at risk. Such information is presented at the risk control meetings and board meetings as guidelines for decision-making by senior management.

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

(3) Market risk management procedures

A. Identification and measurement

The business units and risk management unit of the Bank and subsidiaries have set market risk factors to identify positions exposed to risks and to measure market risk. Market risk factors refer to factors that may affect the value of interest rate, exchange rate and equity securities positions. Such factors include positions, profit or loss, stress testing, sensitivity (DVO1) and value at risk (VaR), which are used to measure the impact of interest risks, exchange rate risks

and equity securities risks on the investment portfolios.

B. Control and reporting

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

(4) Trading-book risk management policy

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

A. Strategy

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

B. Policies and procedures

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

C. Valuation policy

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

D. Methods of risk measurement

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

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

(5) Management of trading-book interest rate risk

A. Definition of interest rate risk

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

B. Trading-book interest rate management procedures

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

C. Methods of measurement

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

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



(6) Management of banking-book interest rate risk

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

A. Strategy

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

B. Management procedures

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

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

C. Method of measurement

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

(7) Management of exchange rate risk

A. Definition of exchange rate risk

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

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

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

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

(8) Management of price risk of equity securities

A. Definition of the price risk of equity securities

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

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

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

C. Procedures for managing the price risk of equity securities

The Bank and subsidiaries stipulate investment limits applicable to the respective

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

D. Method of measurement

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

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

(9) Market risk valuation technique

A. VaR (Value at Risk)

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

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

Item	2013			2012		
	Average	Highest	Lowest	Average	Highest	Lowest
Foreign exchange VaR	4,064	7,049	1,972	3,124	7,250	1,224
Interest rate VaR	11,540	15,748	7,418	15,828	24,266	7,506
Equity securities VaR	13,635	17,773	10,021	7,830	9,525	6,214
Less: risk diversification effects	18,373	24,314	14,066	14,336	18,988	9,888
Total VaR	10,866	15,393	7,340	12,446	18,173	7,574

For the years ended 2013 and 2012, interest rate VaR observed more significant fluctuations primarily because the Bank began to reduce holdings in foreign bonds from May 2013, thus causing interest rate VaR to decrease. Increases in stock and funds also caused equity securities' VaR to increase.

B. Stress testing

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

(10) Concentration of exchange rate risk

The following table shows the concentration of exchange rate risk exposures arising from all assets and liabilities expressed in the respective currencies and carrying amounts held by the Bank and subsidiaries as of December 31, 2013 and 2012 and January 1, 2012 (only information for the top 4 currencies is disclosed)



Unit: FCY / NTD Thousand

	December 31, 2013			
	USD	AUD	HKD	ZAR
Foreign-currency Financial Assets				
Cash and cash equivalents	\$25,449	\$4,468	\$13,447	\$17,400
Due from the Central Bank and call loans to banks	341	—	—	—
Financial assets at fair value through profit or loss	—	—	—	—
Available-for-sale financial assets	78,399	92,248	—	137,440
Discounts and loans	451,404	7,500	224,200	—
Accounts receivable	2,811	—	—	—
Held-to-maturity financial assets	—	—	—	—
Other financial Assets	9,746	—	—	—
Other assets	9	243	—	74,543
Total assets	\$568,159	\$104,459	\$237,647	\$229,383
Exchange rate	29.85	26.54	3.82	2.815
NTD equivalent of total assets	\$16,959,533	\$2,772,354	\$907,812	\$645,714
Foreign Currency Financial Liabilities				
Due to Central Bank and other banks	\$297,906	\$79,000	\$150,000	—
Deposits and remittances	223,517	25,459	83,198	228,088
Financial liabilities at fair value through profit or loss	—	—	—	—
Other financial liabilities	—	—	—	—
Accounts payable	2,331	—	—	—
Other liabilities- guarantee deposit	33,293	—	4,449	1,295
Total liabilities	\$557,047	\$104,459	\$237,647	\$229,383
Exchange rate	29.85	26.54	3.82	2.815
NTD equivalent of total liabilities	\$16,627,851	\$2,772,354	\$907,812	\$645,713

Unit: FCY (\$Thousand); NTD (\$Thousand)

	December 31, 2012			
	USD	AUD	HKD	ZAR
Foreign Currency Financial Assets				
Cash and cash equivalents	\$3,651	\$1,160	\$333	\$21,744
Due from the Central Bank and call loans to banks	341	2,000	—	—
Financial assets at fair value through profit or loss	126	—	—	19,455
Available-for-sale financial assets	94,474	31,297	49,775	—
Discounts and loans	358,905	7,200	—	215,731
Accounts receivable	7,362	650	—	—
Held-to-maturity financial assets	—	—	—	—
Other financial assets	10,038	—	—	—
Other assets	14,763	—	—	—
Total assets	\$489,661	\$42,307	\$50,109	\$256,931
Exchange rate	29.035	30.04	23.77	3.716
NTD equivalent of total assets	\$14,217,294	\$1,270,918	\$1,191,080	\$954,754
Foreign Currency Financial Liabilities				
Due to Central Bank and other banks	\$254,183	\$23,000	\$43,500	\$190,000
Deposits and remittances	205,524	19,291	6,312	62,660
Financial liabilities at fair value through profit or loss	—	—	—	—
Other financial liabilities	—	—	—	—
Accounts payable	10,646	—	—	—
Other liabilities- guarantee deposit	1,648	16	296	4,271
Total liabilities	\$472,000	\$42,307	\$50,109	\$256,930
Exchange rate	29.035	30.04	23.77	3.716
NTD equivalent of total liabilities	\$13,704,528	\$1,270,918	\$1,191,080	\$954,754

Unit: FCY / NTD Thousand

	January 1, 2012			
	USD	AUD	HKD	ZAR
<u>Foreign Currency Financial Assets</u>				
Cash and cash equivalents	\$8,464	\$1,048	\$515	\$1,386
Due from the Central Bank and call loans to banks	341	—	—	—
Financial assets at fair value through profit or loss	7,574	—	—	—
Available-for-sale financial assets	39,166	38,043	21,534	7,528
Discounts and loans	285,194	7,200	—	450
Accounts receivable	12,999	—	—	148
Held-to-maturity financial assets	42,242	—	26,657	7,048
Other financial assets	12,447	—	—	3,499
Other assets	15,050	49	—	111
Total assets	\$423,477	\$46,340	\$48,707	\$20,170
Exchange rate	30.28	30.66	23.31	38.99
NTD equivalent of total assets	\$12,822,899	\$1,420,795	\$1,135,354	\$786,428
<u>Foreign Currency Financial Liabilities</u>				
Due to Central Bank and other banks	\$243,531	\$29,300	\$26,000	\$12,500
Deposits and remittances	183,557	17,040	9,002	7,513
Financial liabilities at fair value through profit or loss	—	—	—	—
Other financial liabilities	—	—	—	—
Accounts payable	2,923	—	—	148
Other liabilities- guarantee deposit	985	—	13,704	9
Total liabilities	\$430,996	\$46,340	\$48,707	\$20,170
Exchange rate	30.28	30.66	23.31	38.99
NTD equivalent of total liabilities	\$13,050,560	\$1,420,795	\$1,135,354	\$786,428



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

Unit: NT\$ Thousand

Item	December 31, 2013			December 31, 2012			January 1, 2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets									
Monetary Items									
USD	573,262	29.850	17,111,871	477,988	29.035	13,878,382	407,173	30.280	12,329,198
GBP	3,042	49.140	149,484	3,317	46.620	154,639	3,133	46.480	145,622
HKD	237,647	3.820	907,812	256,931	3.716	954,754	124,828	3.867	482,710
AUD	104,217	26.540	2,765,919	42,557	30.040	1,278,412	46,291	30.660	1,419,282
SGD	173	23.550	4,074	111	23.670	2,627	47	23.210	1,091
CHF	304	33.460	10,172	276	31.720	8,755	257	32.100	8,250
CAD	763	27.960	21,333	7,599	29.120	221,283	13,424	29.580	397,082
JPY	1,692,606	0.2823	477,823	1,596,158	0.334	533,596	1,189,128	0.389	461,976
CNY	86,397	4.902	423,518	5,331	4.640	24,736	5,303	4.790	25,401
ZAR	154,840	2.815	435,875	177,032	3.374	597,306	115,787	3.656	423,317
SEK	1,747	4.600	8,036	812	4.420	3,589	2	4.350	9
EUR	5,877	40.940	240,604	7,039	38.240	269,171	20,001	39.000	780,039
NZD	18,504	24.420	451,868	50,109	23.770	1,191,080	48,707	23.310	1,135,354
Non-monetary Items									
USD	5	29.850	149	5	29.035	145	5	30.280	151
JPY	20,000	0.2823	5,646	—	0.334	—	—	0.389	—
EUR	500	40.940	20,470	—	38.240	—	—	39.000	—
Financial Liabilities									
Monetary Items									
USD	524,276	29.850	15,649,639	471,212	29.035	13,681,640	431,941	30.280	13,079,173
HKD	233,198	3.820	890,816	252,660	3.716	938,885	54,959	3.867	212,526
AUD	104,459	26.540	2,772,354	42,542	30.040	1,277,962	46,340	30.660	1,420,784
CAD	2,411	27.960	67,412	7,553	29.120	219,943	13,549	29.580	400,779
JPY	1,715,761	0.2823	484,359	1,330,295	0.334	444,718	731,443	0.389	284,166
EUR	6,145	40.940	251,576	7,596	38.240	290,471	20,097	39.000	783,783
NZD	18,476	24.420	451,184	49,812	23.770	1,184,031	35,002	23.310	815,897
GBP	3,050	49.140	149,877	3,286	46.620	153,193	3,931	46.480	182,713
ZAR	229,383	2.815	645,713	209,647	3.374	707,349	130,773	3.656	478,106
SGD	97	23.550	2,284	45	23.670	1,065	65	23.210	1,509
CHF	264	33.460	8,833	247	31.720	7,835	182	32.100	5,842
CNY	69,522	4.902	340,797	—	4.640	—	—	4.790	—
Non-monetary Items									
USD	1,193	29.850	35,611	1,638	29.035	47,559	683	30.280	20,681
HKD	3,037	3.820	11,601	3,425	3.716	12,727	—	3.867	—
JPY	—	0.2823	—	12,208	0.334	4,081	—	0.389	—

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

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

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

December 31, 2012					
Item	1 – 90 days (incl.)	91- 180 days (incl.)	181- 365 days (incl.)	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	66,448,605	86,564,947	22,804,607	6,062,731	181,880,890
Interest rate sensitivity gap	110,143,707	(75,990,647)	(22,058,496)	(3,001,719)	9,092,845
Net worth					10,030,519
Ratio of interest rate sensitive assets to liabilities (%)					105.00
Ratio of interest rate sensitivity gap to net worth (%)					90.65

January 1, 2012					
Item	1 – 90 days (incl.)	91- 180 days (incl.)	181- 365 days (incl.)	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	74,641,396	78,899,519	28,717,070	4,466,419	186,724,404
Interest rate sensitivity gap	107,665,283	(70,900,285)	(28,557,999)	(517,993)	7,689,006
Net worth					10,170,964
Ratio of interest rate sensitive assets to liabilities (%)					104.12
Ratio of interest rate sensitivity gap to net worth (%)					75.60

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

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

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

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

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

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



December 31, 2012					
Item	1 – 90 days (incl.)	91- 180 days (incl.)	181- 365 days (incl.)	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 sensitivity gap	12,913	(81,523)	(14,732)	91,383	8,041
Net worth					17,660
Ratio of interest rate sensitive assets to liabilities (%)					101.75
Ratio of interest rate sensitivity gap to net worth (%)					45.53

January 1, 2012					
Item	1 – 90 days (incl.)	91- 180 days (incl.)	181- 365 days (incl.)	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 sensitivity gap	(38,676)	(59,848)	(12,310)	77,503	(33,331)
Net worth					(7,519)
Ratio of interest rate sensitive assets to liabilities (%)					92.20
Ratio of interest rate sensitivity gap to net worth (%)					(443.29)

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

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

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

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

9. CAPITAL MANAGEMENT

9.1 Overview

The Bank and subsidiaries adopt the following capital management objectives:

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

9.2 Capital Management Procedures

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

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

- Tier 1 Capital: include common equity and additional Tier 1 capital.
 - Common equity: common equity is made up of common capital, capital surplus, legal reserve, special reserve, retained earnings and other equity items less statutory deductions including the portion of prepaid pension or provision for employee benefits that is the under accrual of defined benefit liabilities, goodwill and other intangible assets, deferred income tax assets that rely on future profitability, investments in relevant financial entities reclassified to banking book.

- Additional Tier 1 capital: Non-cumulative perpetual preferred stock and non-cumulative perpetual subordinated debts.
- Tier 2 Capital: Cumulative perpetual preferred stock, cumulative perpetual subordinated debts, long-term subordinated debts, 45% of unrealised gain on available-for-sale financial assets, operating reserve and allowance for doubtful accounts.

9.3 Capital Adequacy:

Unit: NT\$ Thousand ; %

Items		Year (Note 2)	December 31, 2013	December 31, 2012	
Core Capital	Tier 1 capital		10,100,154	10,089,816	
	Tier 2 capital		3,665,056	2,264,547	
	Tier 3 capital				
	Core capital		13,765,210	12,354,363	
Risk-weighted Assets	Credit Risk	Standardized approach	137,615,003	120,786,073	
		Internal rating-based approach			
		Assets securitization	1,772,752	594,337	
	Operational Risk	Basic indicator approach	4,941,919	4,632,264	
		Standardized approach / Alternative standardized approach			
		Advanced measurement approach			
	Market Risk	Standardized approach	3,177,928	3,876,439	
		Internal models approach			
	Total risk-weighted assets			147,507,601	129,889,113
	Capital adequacy ratio			9.33%	9.51%
Ratio of Tier 1 capital to risk-weighted assets			6.85%	7.77%	
Ratio of Tier 2 capital to risk-weighted assets			2.48%	1.74%	
Ratio of Tier 3 capital to risk-weighted assets					
Ratio of common capital to total assets			3.08%	3.20%	
Financial leverage ratio			3.21%	4.55%	

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

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

Note 3: The ratios are calculated as follows:

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

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



10. RELATED PARTY TRANSACTIONS

10.1 Name and Relationship of Related Parties with the Bank

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

10.2 Significant Transactions with Related Parties

(1) Credit

Name of Related Party	Balance, December 31, 2013	Balance, December 31, 2012	Balance, January 1, 2012
Kaohsiung City Government	\$42,018,671	\$40,639,868	\$42,458,572
Others	149,330	91,678	104,713
2013			
Name of Related Party	Interest & service fee income	Interest Rate Range	
Kaohsiung City Government	\$410,514	0.850%-2.375%	
Others	1,562	1.390%-3.980%	
2012			
Name of Related Party	Interest & service fee income	Interest Rate Range	
Kaohsiung City Government	\$425,119	0.917%-2.375%	
Others	1,545	1.390%-3.980%	

For the years ended December 31, 2013 and 2012, interest rates charged for credit extended to related parties are shown above by the type and purpose of loan and the interest rate range for credit extended to non-related parties (other than those under debt negotiation) was 0.885%-10.00% and 0.100%-11.88%, respectively.

(2) Deposit

Name of Related Party	Balance, December 31, 2013	Balance, December 31, 2012	Balance, January 1, 2012
Kaohsiung City Government	\$12,323,322	\$11,905,378	\$10,875,120
Kaohsiung Rapid Transit Corporation	319,755	1,618,751	2,148,733
Others	511,882	448,288	645,346
2013			
Name of Related Party	Interest & service fee income	Interest Rate Range	
Kaohsiung City Government	\$81,766	0%-1.45%	
Kaohsiung Rapid Transit Corporation	7,434	0%-1.36%	
Others	6,550	0%-13.00%	
2012			
Name of Related Party	Interest & service fee income	Interest Rate Range	
Kaohsiung City Government	\$74,406	0%-1.45%	
Kaohsiung Rapid Transit Corporation	18,194	0.30%-1.50%	
Others	7,095	0%-13.00%	

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

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

(3) Lease:

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

2013:

Leased Property	Lease Term	Payment Method	Rental Expense
Premise of Hsiao Kang Branch	2012.1. 1-2013.12.31	Half-yearly payment	\$213
Premise of Yen Cheng Branch	2011.1. 1-2013.12.31	Half-yearly payment	744
Premise of Wan Nei Branch	2012.1. 1-2013.12.31	Half-yearly payment	977
Premise of Shih Fu Branch	2012.1. 1-2013.12.31	Half-yearly payment	240
Premise of Tso Ying Branch	2012.1. 1-2014.12.31	Half-yearly payment	602
Premise of Kwei Lin Branch	2013.1. 1-2014.12.31	Half-yearly payment	359
Premise of Gangshan Benjhou Branch	2012.9. 1-2017. 8.31	Half-yearly payment	392
		Total	\$3,527

2012:

Leased Property	Lease Term	Payment Method	Rental Expense
Premise of Hsiao Kang Branch	2012.1. 1-2013.12.31	Half-yearly payment	\$215
Premise of Yen Cheng Branch	2011.1. 1-2013.12.31	Half-yearly payment	722
Premise of Wan Nei Branch	2012.1. 1-2013.12.31	Half-yearly payment	972
Premise of Shih Fu Branch	2012.1. 1-2013.12.31	Half-yearly payment	239
Premise of Tso Ying Branch	2012.1. 1-2014.12.31	Half-yearly payment	617
Premise of Kwei Lin Branch	2011.1. 1-2012.12.31	Half-yearly payment	330
Premise of Gangshan Benjhou Branch	2012.9. 1-2017. 8.31	Half-yearly payment	131
		Total	\$3,226

B. Type of lease: operating lease.

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

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

A. Loans

December 31, 2013:

Unit: NT\$ Thousand

Type	Number of accounts or name of related party	Highest balance	Closing balance	Default Status		Collateral	Whether terms and conditions of the related party transactions are different from those of arms length transactions
				Normal loans	Overdue accounts		
Employee consumer loan	16	25,218	25,218	25,218	—	real estate, credit	No
Residential mortgage	12	89,028	89,028	89,028	—	real estate	No
Other loans	Te-Chin Chou	2,209	2,116	2,116	—	real estate	No
Other loans	I-Fen Chen	468	468	468	—	NCD	No
Other loans	Pi-Jung Ko	2,000	2,000	2,000	—	real estate	No
Other loans	Tung- Chiang Sung	2,500	2,500	2,500	—	real estate	No
Other loans	Jen-Yi Lin	28,000	28,000	28,000	—	real estate	No
Other loans	Chun-Ching Ko	2,000	—	—	—	real estate	No
Other loans	Sheng-Chen Li	766	—	—	—	consumer loan	No
Other loans	Juan- Wei Hu	424	—	—	—	consumer loan	No



December 31, 2012:

Unit: NT\$ Thousand

Type	Number of accounts or name of related party	Highest balance	Closing balance	Default Status		Collateral	Whether terms and conditions of the related party transactions are different from those of arms length transactions
				Normal loans	Overdue accounts		
Employee consumer loan	15	35,227	22,954	22,954	—	real estate, credit	No
Residential mortgage	10	45,637	41,091	41,091	—	real estate	No
Other loans	Chun-Ching Ko	2,000	2,000	2,000	—	real estate	No
Other loans	Te-Chin Chou	2,300	2,209	2,209	—	real estate	No
Other loans	Juan- Wei Hu	439	424	424	—	consumer loan	No
Other loans	Sheng-Chen Li	532	—	—	—	consumer loan	No
Other loans	Shan-Hui Chang	6,000	—	—	—	real estate	No
Other loans	Chi-Chang Chen	2,500	—	—	—	real estate	No
Other loans	Jen-Yi Lin	32,787	23,000	23,000	—	real estate	No

January 1, 2012:

Unit: NT\$ Thousand

Type	Number of accounts or name of related party	Highest balance	Closing balance	Default Status		Collateral	Whether terms and conditions of the related party transactions are different from those of arms length transactions
				Normal loans	Overdue accounts		
Employee consumer loan	20	42,555	35,227	35,227	—	real estate, credit	No
Residential mortgage	11	32,396	26,867	26,867	—	real estate	No
Other loans	Shan-Hui Chang	6,500	6,000	6,000	—	real estate	No
Other loans	Te-Chin Chou	2,300	2,300	2,300	—	real estate	No
Other loans	Chi-Chang Chen	1,000	1,000	1,000	—	real estate	No
Other loans	Sheng-Chen Li	532	532	532	—	consumer loan	No
Other loans	Juan- Wei Hu	285	—	—	—	consumer loan	No
Other loans	Jen-Yi Lin	32,915	32,787	32,787	—	real estate	No

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

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

Explanation 3: As of December 31, 2013 and 2012 and January 1, 2012, allowance for doubtful accounts provided for loans to related parties amounted to \$132 thousand, \$82 thousand and \$140 thousand, respectively. For years ended December 31, 2013 and 2012, bad debt expenses recognized (reversal) in relation to loans to related parties amounted to \$50 thousand and (\$58) thousand, respectively.

- B. Guarantee: none.
- C. Derivatives: none.
- D. Disposal of non-performing loans: none.

(5) Remuneration to key managerial officers

Item	2013	2012
Salaries and other short-term employee benefits	\$32,384	\$32,734
Post-employment benefits	748	739
Other long-term employee benefits	—	—
Termination benefits	—	—
Share-based payment	—	—
Total	\$33,132	\$33,473

11. PLEDGED ASSETS

Item	December 31, 2013	December 31, 2012	January 1, 2012
Negotiable certificate of deposit	\$1,700,000	\$1,000,000	\$2,150,000
Negotiable certificate of deposit issued by Central Bank	2,600,000	1,760,000	700,000
Government bond (par value)	274,500	270,600	278,200
Total	\$4,574,500	\$3,030,600	\$3,128,200

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

12. SIGNIFICANT OR CONTINGENT LIABILITIES AND COMMITMENTS

12.1 As of December 31, 2013 and 2012 and January 1, 2012, the Bank had the following commitments:

Item	December 31, 2013	December 31, 2012	January 1, 2012
Securities sold with agreement to repurchase	\$68,136	\$69,015	\$103,335
Securities purchased with agreement to resell	3,461,566	4,968,743	5,880,505
Loan yet to be appropriated by the borrower	11,788,456	9,870,367	8,089,502
Credit line facility yet to be utilized by the credit card holder	6,612	6,084	6,096
Standby letter of credit yet to be utilized by the client	1,357,740	1,841,161	1,305,662
Guarantees	4,128,681	4,995,309	4,468,668
Amounts collected on behalf of customers	11,533,824	11,081,533	11,137,125
Agency loans payable	6,472,604	7,688,465	9,086,437
Agency sale of traveller's checks	66,034	86,326	99,280
Trust assets	19,034,132	20,168,152	19,100,053
Marketable securities held under custody	27,641,027	60,089,204	30,088,562



12.2 Major Litigated Cases:

- (1) Clients' investments under the Bank's trust fund were securities issued by LBH (Lehman Brother Holdings Inc.). Structured notes amounting to ZAR \$159,290 thousand, equivalent to NT\$ 627,603 thousand were guaranteed by LBH. However, while LBH filed for bankruptcy protection with the U.S. court on September 15, 2008, quotations for structured notes issued by Lehman Brothers Treasury Co. B.V. were ceased and no further redemption was accepted. Subsequently, Lehman Brothers petitioned for an extension for proposing the restructuring plan, and the period during which the plan would be administered. LBH proposed a mutual restructuring plan with the bankruptcy court of the USA on March 15, 2010. The Bank's Board of Directors resolved during its meeting dated April 23, 2009 that apart from settlements for "The Nine Major Disputes of Lehman Brothers' structured notes", the Bank shall propose settlements for investments other than structured notes issued by Lehman Brothers, and such settlements shall not be restricted to the means proposed in the Nine Major Disputes. Settlements were set at 15% of a customer's initial investment amount entrusted to the Bank under a trust.

As at March 27, 2014, the company has settled a total of 753 cases of dispute over structured notes issued by LBH and made compensation payment totaling NT\$ 112.2 million; The Bank has settled or won up to 96.54% of the 780 disputed cases and 27 cases remained unresolved. The Bank is committed to resolve structured note disputes in a timely manner in coordination with the Review Committee of The Bankers Association and the Financial Ombudsman Institution. The Bank 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 the United States and Netherlands. The Bank will closely monitor further updates and developments of Lehman Brothers' bankruptcy proceedings in the U.S. and Netherlands in the best interest of our customers.

- (2) The debt restructuring plan of Lehman Brothers came into effect on March 6, 2012 USA time. As ruled by the court of USA, the restructuring plan of LBHI classified the debts to participating financial institutions in 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 final 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 Bank has received the first payment amounting to US\$710,000 (approximately ZAR 5.616 million) on April 18, 2012, a second payment amounting to US\$479,000 (approximately ZAR 3.969 million) on Oct. 2, 2012, a third payment amounting to US\$605,000 (approximately ZAR 5.489 million) on April 8, 2013 and a fourth payment amounting to US\$718,000 (approximately ZAR 7.181 million) on Oct. 4, 2013, respectively. The Bank also made payment in the amount of ZAR 1.186 million, ZAR 791,000, ZAR 1.037 million and ZAR 6.074 million on May 4, 2012, October 9, 2012, April 19, 2013 and October 24, 2013, respectively to clients who have yet to settle with the Bank and have yet to receive compensation and those who have agreed to settlement but have not received the compensation payment in full. According to the percentages of compensation payments for the respective debts as set out by LBH, the Bank is classified as the preferred third party guaranteed debts for compensation. As of the date on which the fourth compensation payment was made, the Bank has been allocated compensation payments equivalent to 12.76844% of the total compensation payment distributed by LBT.
- (3) On the other hand, the administrator of Lehman Brothers Treasury Co. B.V. (LBT henceforth) proposed a Composition Plan (the "Plan" henceforth) on December 10, 2012. The Plan was confirmed by the Amsterdam District Court on March 22, 2013 and came into effect on April 3, 2013. The main assets of LBT comprised of loans in the amount of USD 34.548 billion due

from LBH. LBH has acknowledged the debts and according to its restricting plan, LBH shall distribute compensation payment to LBT. As such, the compensation payment (in USD cash) received by LBT from LBH would become distributable cash of LBT. The Plan provides that when the distributable cash meets certain conditions, LBT shall immediately make distributions according to the Plan. The Bank has received the first compensation payment distributed by LBT on May 9, 2013 and the second payment on October 28, 2013 in the amount of ZAR 20,957 thousand and ZAR 9,272 thousand, respectively. The Bank has distributed ZAR 11,680 thousand and ZAR 8,295 thousand on May 24, 2013 and November 14, 2013, to clients who have yet to settle with the Bank and have yet to receive compensation and those who have agreed to settlement but have not received the compensation payment in full. As of the date on which the second compensation payment was made, the Bank has been allocated compensation payments equivalent to 17.049% of the total compensation payment distributed by LBT.

- (4) As described in 2. and 3. above, the Bank has received a total compensation payment in the amount of ZAR 52,484 thousand, equivalent to 29.81744% of the total compensation payment distributed by LBH (four separate payments) and LBT (two separate payments), respectively. The aforesaid compensation payment has been offset against the balance of the settlement payment agreed upon between the Bank and each customer and has been distributed accordingly to the customer. The Bank estimated that it is necessary to retain an amount totaling ZAR 1,295 thousand under "other liabilities" after distributing the aforesaid compensation payment (totaling ZAR 33,919 thousand) to clients who have yet to settle with the Bank and have yet to receive compensation and those who have agreed to settlement but have not received the compensation payment in full. The remaining balance totaling ZAR 17,270 thousand, being the amount of compensation payment advanced by the Bank, now collected, was transferred to "Other Miscellaneous Income" .

13. SIGNIFICANT DISASTER LOSS: NONE.

14. SIGNIFICANT SUBSEQUENT EVENT: NONE.

15. OTHER

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

(1) Balance Sheet of Trust Account

Item	December 31, 2013	December 31, 2012	January 1, 2012
Trust Assets			
Bank deposit	\$404,196	\$225,446	\$116,172
Financial Assets			
Stock	9,570	9,487	2,983
Investment in funds	16,945,668	18,729,546	18,721,329
Real Estate	1,674,697	1,203,673	259,569
Total	\$19,034,131	\$20,168,152	\$19,100,053
Trust Liabilities			
Medium- and long-term loans	\$363,750	\$116,800	\$14,000
Trust capital	18,817,783	20,206,756	19,085,968
Retained earnings	(147,402)	(155,404)	85
Total	\$19,034,131	\$20,168,152	\$19,100,053



(2) Inventory of Assets of Trust Account

Inventory Item	December 31, 2013	December 31, 2012	January 1, 2012
Bank deposit	\$404,196	\$225,446	\$116,172
Stocks	9,570	9,487	2,983
Investment in funds	16,945,668	18,729,546	18,721,329
Real estate	1,674,697	1,203,673	259,569
Total	\$19,034,131	\$20,168,152	\$19,100,053

(3) Income Statement of Trust Account

Inventory Item	2013	2012
Trust Revenue		
Interest income	\$830	\$635
Investment income	180	210
Total trust revenue	\$1,010	\$845
Trust Expense		
Administrative expense	\$10,049	\$6,060
Taxes	47,855	7,508
Interest expense	10,327	—
Other expenses	118,315	157,192
Total trust expense	\$186,546	\$170,760
Net income (loss) before income tax	(\$185,536)	(\$169,915)
Income tax	(84)	(55)
Net income (loss)	(\$185,620)	(\$169,970)

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

(1) Balance Sheet of Securities Department

Item	December 31, 2013	December 31, 2012	January 1, 2012
Assets			
Financial assets at fair value through profit or loss	\$72,110	\$74,710	\$76,199
Accounts receivable, net	4,627	4,639	5,249
Available-for-sale financial assets	787,239	801,871	470,865
Real estate and equipment, net	40	52	64
Other assets	7,918	9,132	374,604
Total assets	\$871,934	\$890,404	\$926,981
Liabilities			
Bills and bonds sold under agreements to repurchase	\$68,019	\$68,914	\$103,207
Accounts payable	310	281	268
Current income tax liabilities	1,510	2,995	2,928
Total Liabilities	\$69,839	\$72,190	\$106,403
Shareholders' Equity			
Operating capital	\$800,000	\$800,000	\$800,000
Retained earnings	4,420	13,428	15,977
Other equity	(2,325)	4,786	4,601
Total shareholders' equity	\$802,095	\$818,214	\$820,578
Total Liabilities and Shareholders' Equity	\$871,934	\$890,404	\$926,981

(2) Income Statement of Securities Department

Item	2013	2012
Interest income	\$9,543	\$7,180
Interest expense	(443)	(466)
Net interest income	\$9,100	\$6,714
Non-interest income, net		
Services fees and commission income, net	(\$232)	\$8,047
Financial assets or liabilities at fair value through profit or loss	287	1,478
Realized profit (loss) from available-for-sale financial assets	—	163
Other non-interest gains (losses), net	(170)	3,143
Net revenue	\$8,985	\$19,545
Operating expenses		
Personnel expense	(\$2,882)	(\$2,801)
Depreciation and amortization	(11)	(13)
Other business and administrative expenses	(162)	(308)
Net income (loss) before income tax	\$5,930	\$16,423
Income tax (expense) benefit	(1,510)	(2,995)
Net income (loss)	\$4,420	\$13,428

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

15.4 Profitability

Item	2013	2012	
Return on assets	Before income tax	0.21	0.20
	After income tax	0.18	0.21
Return on equity	Before income tax	4.50	4.28
	After income tax	3.94	4.47
Net profit margin	14.27	16.92	

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

16. SUPPLEMENTARY DISCLOSURES

16.1 Information on Significant Transactions (Before Consolidation)

- (1) Cumulative purchase or sale of shares in the same investee company in excess of \$300 million or 10% of paid-in capital: None.
- (2) Acquisition of real estate in excess of \$300 million or 10% of paid-in capital: None.
- (3) Disposal of real estate in excess of \$300 million or 10% of paid-in capital: None.
- (4) Allowance for service fees to related parties in excess of \$5 million: None.
- (5) Receivables from related parties in excess of \$300 million or 10% of the paid-in capital: Appendix 1.
- (6) Information on sale of non-performing loans: Appendix 2.
- (7) Type of and other relevant information on securitization instruments approved for issuance in accordance with the securitization rules governing financial assets and real estate: None.



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

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

16.2 Information on Investee Companies:

(1) Loans to others: None.

(2) Endorsements or guarantees to others: None.

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

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

(5) Information on derivative transactions: None.

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

16.4 Investments in Mainland China: None.

Appendix 1

Bank of Kaohsiung Co., Ltd. and Subsidiaries
Statement of Receivables from Related Parties in Excess of \$300 Million or 10% of Paid-in Capital
December 31, 2013

Unit: NT\$ Thousand

Company in which accounts receivables are recognised	Counterparty	Relationship	Balance of Receivables from Related Parties	Turnover Rate	Overdue Receivables from Related Parties		Amount of receivables from related parties subsequently collected	Allowance for Doubtful Accounts
					Amount	Handling Method		
Bank of Kaohsiung Co., Ltd.	Kaohsiung City Government	Major shareholder of the Bank	42,018,671	Not applicable to financial institutions	—	Not applicable	As of March 27, 2014, \$9,117,027 thousand were collected.	—

Appendix 2

Bank of Kaohsiung Co., Ltd. and Subsidiaries
Information on Disposal of Non-performing Loans
December 31, 2013

(1) Summary of non-performing loans sold

Unit: NT\$ Thousand

Transaction Date	Counterparty	Contents of Claim (Note 1)	Carrying Amount	Sale Price	Gain (loss) on Disposal	Attached Conditions (Note 4)	Relationship between the Counterparty and Bank (Note 5)
102.6.21	Deutsche Bank	Participating bank in syndicated loan	— (Note 2)	64,468	64,468	None	None
102.12.19	SC Lowy Financial (HK) Limited	Participating bank in syndicated loan	168,265 (Note 3)	188,381	20,116	None	None

Note 1: Contents of claim: please describe in detail the type of claim, such as credit card, cash card, residential mortgage and accounts receivable etc.

Note 2: The carrying amount refers to the balance of loans disposed of in the amount of USD 5,041 thousand less the amount written off as bad debts in the amount of USD 5,041 thousand.

Note 3: The carrying amount refers to the balance of loans disposed of in the amount of USD 9,386 thousand net of allowance for doubtful accounts in the amount of USD 3,749 thousand.

Note 4: Please disclose the details of attached conditions such as profit sharing and repurchase or resell agreements etc, if any.

Note 5: Please complete in accordance with the types of related parties described in IFRS 24. Describe in detail the basis of judgment if the related party is a related party in substance.

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

Appendix 3

Bank of Kaohsiung Co., Ltd. and Subsidiaries Business Relationships and Important Transactions between Parent and Subsidiaries December 31, 2013 and 2012

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

December 31, 2013:

Unit: NT\$ Thousand

No. (Note 1)	Name of Related Party	Counterparty	Relationship with Counterparty (Note 2)	Transaction Status			
				Account	Amount	Terms of Transaction	Ratio of transaction to consolidated net income or total assets (Note 3)
0	Bank of Kaohsiung Co., Ltd.	Kaohsiung Bank Insurance Agency Co., Ltd.	Parent to subsidiary	Accounts receivable	31,402	—	0.01
		Kaohsiung Bank Insurance Agency Co., Ltd.	Parent to subsidiary	Service fees and commission income, net	135,779	—	4.62
1	Kaohsiung Bank Insurance Agency Co., Ltd.	Bank of Kaohsiung Co., Ltd.	Subsidiary to parent	Cash and cash equivalents	67,296	—	0.03
2	Kaohsiung Bank General Insurance Agency Co., Ltd.	Bank of Kaohsiung Co., Ltd.	Subsidiary to parent	Cash and cash equivalents	8,168	—	—

December 31, 2012:

No. (Note 1)	Name of Related Party	Counterparty	Relationship with Counterparty (Note 2)	Transaction Status			
				Account	Amount	Terms of Transaction	Ratio of transaction to consolidated net income or total assets (Note 3)
0	Bank of Kaohsiung Co., Ltd.	Kaohsiung Bank Insurance Agency Co., Ltd.	Parent to subsidiary	Accounts receivable	30,046	—	0.01
		Kaohsiung Bank Insurance Agency Co., Ltd.	Parent to subsidiary	Service fees and commission income, net	119,291	—	4.41
1	Kaohsiung Bank Insurance Agency Co., Ltd.	Bank of Kaohsiung Co., Ltd.	Subsidiary to parent	Cash and cash equivalents	89,170	—	0.04
2	Kaohsiung Bank General Insurance Agency Co., Ltd.	Bank of Kaohsiung Co., Ltd.	Subsidiary to parent	Cash and cash equivalents	7,651	—	—

Note 1: Information on business dealings between the parent company and subsidiaries shall be identified with a code in the first column. That is: 1. "0" for parent company; 2. "1" and thereafter for subsidiary companies assigned to each subsidiary.

Note 2: There are three types of related party transactions. Provide the type of transaction: 1. Parent to subsidiary; 2. Subsidiary to parent; 3. Subsidiary to subsidiary.

Note 3: The transaction amount is expressed as a percentage of total consolidated income or total assets. For balance sheet accounts, the ratio is calculated using the balance as of the end of the period as a percentage of total consolidated assets; for income statement accounts, the ratio is calculated using an interim accumulated transaction amount as a percentage of total consolidated income.

Note 4: All transactions between the parent company and subsidiaries were eliminated.



Appendix 4

Bank of Kaohsiung Co., Ltd. and Subsidiaries
Information on Investee Companies
December 31, 2013

Unit: Thousand shares; NT\$ Thousand

Name of Investee Company	Location	Main Business Activities	Shares Held By the Bank as of December 31, 2013	Carrying Amount of Investment	Investment Gain/Loss Recognised This Period (Note 3)	Aggregate Shareholding of the Bank and Subsidiaries (Note 1)				Note
						No. Of Shares	Pro Forma No. of Shares (Note 2)	Total		
								No. of Shares	Shareholding	
Finance Related Enterprise										
Kaohsiung Bank Insurance Agency Co., Ltd.	Kaohsiung	Life insurance agency	100%	51,302	42,726	300	—	300	100%	Equity-method investment
Kaohsiung Bank General Insurance Agency Co., Ltd	Kaohsiung	Property insurance agency	100%	8,060	1,845	500	—	500	100%	Equity-method investment
Taipei Forex Inc.	Taipei	Foreign exchange brokerage	3.53%	7,000	2,240	700	—	700	3.53%	Financial assets carried at cost
Taiwan Futures Exchange Corporation	Taipei	Futures trading	0.30%	6,000	1,630	852	—	852	0.30%	Financial assets carried at cost
Taiwan Financial Assets Service Co., Ltd.	Taipei	Financial assets services	2.94%	50,000	500	5,000	—	5,000	2.94%	Financial assets carried at cost
Taiwan Depository & Clearing Corporation	Taipei	Depository & clearing	0.08%	4,639	306	272	—	272	0.08%	Financial assets carried at cost
Sunny Assets Management Co., Ltd.	Taipei	Assets management	0.0058%	3	1	0.347	—	0.347	0.0058%	Financial assets carried at cost
Taiwan Finance Corporation	Taipei	Bills & finance	10.00%	516,165	11,839	51,617	—	51,617	10.00%	Financial assets carried at cost
Waterland Securities Co., Ltd.	Taipei	Securities	4.94%	407,830	—	42,899	—	42,899	4.94%	Financial assets carried at cost
Taiwan Asset Management Co., Ltd.	Taipei	Assets management	0.57%	75,000	6,756	7,500	—	7,500	0.57%	Financial assets carried at cost
Financial Information Services Co., Ltd.	Taipei	Information service	1.14%	45,500	13,309	5,119	—	5,119	1.14%	Financial assets carried at cost
Non-Finance Related Enterprise										
Kaohsiung Rapid Transit Corporation	Kaohsiung	Rapid transit	0.23%	6,430	(18,570)	643	—	643	0.23%	Financial assets carried at cost
Taiwan High Speed Rail Corp.	Taipei	Transportation	0.10%	58,753	4,752	10,800	—	10,800	0.10%	Available-for-sale financial assets

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

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

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

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

Note 3: Investment gain or loss on equity-method investment recognized in the current period refer to gain or loss recognized on investments accounted for under the equity method; gain or loss recognized on financial assets carried at cost refers to cash dividend income received. Loss on impairment of investment in Kaohsiung Rapid Transit Corporation amounted to \$18,570 thousand.

Note 4: Initial investment in Taiwan High Speed Rail Corp. was \$100,440 thousand. As of December 31, 2013, a provision for unrealised loss on available-for-sale financial assets in the amount of \$41,687 thousand was made. As such, the carrying amount of this asset amounted to \$58,753 thousand.

Note 5: All transactions between the parent company and subsidiaries were eliminated.

17. SEGMENT INFORMATION

17.1 General Information:

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

- (1) DBU: primarily engages in deposit taking and underwriting of loans in the domestic market.
- (2) OBU& Finance Administration Department: primarily engages in the investment and trading of securities and offshore deposits and loans.
- (3) Other segments: primarily engages in public treasury, trust, foreign exchange, life insurance and property insurance businesses.

17.2 Measurement of Segment Information:

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

17.3 Financial Information by Segment:

FY 2013:

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

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



FY 2012:

	DBU	OBU& Finance Administration Dept.	Other Segments	Adjustment & Elimination	Total
Interest and service fee income from external customers	\$3,335,375	\$820,484	\$304,236	\$ —	\$4,460,095
Interest and service fee income from internal segments	524,174	—	398	—	524,572
Interest and service fees paid to external customers	(1,711,863)	(129,074)	(86,461)	—	(1,927,398)
Interest and service fees paid to internal segments	(398)	(404,151)	(120,023)	—	(524,572)
Other net revenue	41,634	118,600	15,120	—	175,354
Net revenue	\$2,188,922	\$405,859	\$113,270	\$ —	\$2,708,051
Bad debt expense	(207,635)	(53,203)	—	—	(260,838)
Operating expenses	(1,853,834)	(69,011)	(86,072)	—	(2,008,917)
Segment profit (loss) before income tax	\$127,453	\$283,645	\$27,198	\$ —	\$438,296
Assets					
Capital expenditure on non-current assets	\$14,072	\$ —	\$537	\$ —	\$14,609
Segment assets	\$153,804,431	\$54,739,542	\$12,371,655	\$141,926	\$221,057,554
Segment liabilities	\$144,665,389	\$53,584,031	\$12,264,857	\$ —	\$210,514,277

- (1) Inter-segment revenues and expenses were eliminated.
- (2) Segment profit (loss) excluded income tax benefit amounting to \$19,998 thousand.
- (3) Segment assets excluded deferred income tax assets amounting to \$141,926 thousand.

17.4 Information by Products:

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

17.5 Information by Geographic Location:

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

Country	2013	2012
ROC	\$4,180,209	\$4,060,836
United States	28,164	4,633
Australia	68,699	51,115
United Arab Emirates	2,174	4,075
Cayman Islands	34,495	24,951
Virgin Islands	29,584	33,103
Other countries	315,802	281,382
Total	\$4,659,127	\$4,460,095

- (2) Non-current assets:

Country	2013	2012
R.O.C.	\$2,844,378	\$2,865,790

17.6 Information on Major Client:

Client	2013	2012
Kaohsiung City Government	\$410,514	\$425,119

18. FIRST ADOPTION OF IFRSs

The consolidated financial statements are the first consolidated financial statements prepared by the Bank and subsidiaries in accordance with the IFRSs. The Bank and subsidiaries has adjusted, where appropriate, the amounts that are reported in the previous R.O.C. GAAP consolidated financial statements to those amounts that should be presented under the IFRSs in the preparation of the opening IFRS balance sheet. Information on exemptions elected by the Bank and subsidiaries, exceptions to the retrospective application of IFRSs in relation to first adoption of IFRSs, and how it affects the consolidated financial position, operating results and cash flows in transition from R.O.C. GAAP to the IFRSs is set out below:

18.1 Exemptions Elected by the Bank and Subsidiaries

(1) Decommissioning liabilities:

As set out in IFRIC 1 “Changes to Decommissioning, Restoration and Similar Liabilities”, decommissioning liabilities involves making an adjustment to increase or decrease the cost of related assets. The depreciable amount of the asset after adjustment shall be amortized over the remaining useful life. The Bank and subsidiaries elect to be exempt from the aforementioned provision for changes in the liabilities prior to the transition date. That is, changes in the liabilities before the transition date will be accounted for in accordance with the IAS37 provisions. The estimated liabilities when incurred was incorporated as part of the asset's cost and amortized over the estimated useful life to obtain an expected accumulated depreciation figure as of the transition date. The difference between the two carrying amounts (calculated under IFRS and existing accounting policy) is directly recognised in retained earnings.

(2) Deemed cost:

The Bank and subsidiaries have not elected to measure any property and equipment or intangible assets on their fair values. Property and equipment and intangible assets are measured using the cost model as provided in IFRSs, which are applied retrospectively for valuation of property and equipment and intangible assets.

(3) Employee benefits:

The Bank and subsidiaries have elected to recognize all cumulative actuarial gains and losses relating to all employee benefit plans in ‘retained earnings’ at the transition date.

(4) Cumulative translation differences:

The Bank and subsidiaries have elected to reset the cumulative translation differences arising on the translation of the financial statements of foreign operations under R.O.C. GAAP to zero at the transition date, and to deal with translation differences arising subsequent to the transition date in accordance with IAS 21, “The Effects of Changes in Foreign Exchange Rates”.

18.2 Reconciliations for Consolidated Balance Sheets and Consolidated Statements of Comprehensive Income for the Comparative Periods as to Transition from R.O.C. GAAP to IFRSs Endorsed by the FSC are Shown Below:

(1) Reconciliation of significant differences in consolidated balance sheet as of January 1, 2012 (date of transition to IFRSs):



Financial Information

ROC GAAP		Effect of IFRS adoption		IFRS endorsed by FSC		Note
Item	Amount	Difference on recognition and evaluation	Presentation difference	Amount	Item	
Cash and cash equivalents	\$2,840,102	\$ —	\$ —	\$2,840,102	Cash and cash equivalents	
Due from the Central Bank and call loans to banks	24,134,482	—	—	24,134,482	Due from the Central Bank and call loans to banks	
Financial assets at fair value through profit or loss	1,615,849	—	—	1,615,849	Financial assets at fair value through profit or loss	
Bills and bonds purchased under agreements to resell	5,878,341	—	—	5,878,341	Bills and bonds purchased under agreements to resell	
Accounts receivable, net	970,882	—	(33,357)	937,525	Accounts receivable, net	5
—	—	—	33,357	33,357	Current income tax assets	5
Discounts and loans, net	166,215,870	—	—	166,215,870	Discounts and loans, net	
Available-for-sale financial assets, net	11,748,424	53,892	—	11,802,316	Available-for-sale financial assets, net	6
Held-to-maturity financial assets, net	5,566,536	—	—	5,566,536	Held-to-maturity financial assets, net	
Other financial assets, net	1,830,973	(100,440)	—	1,730,533	Other financial assets, net	6
Property and equipment, net	2,202,576	7,360	617,409	2,827,345	Property and equipment, net	2 · 5
Intangible assets, net	62,565	—	—	62,565	Intangible assets, net	
—	—	—	94,960	94,960	Deferred income tax assets, net	1·2·3·4
Other assets, net	771,284	—	(712,369)	58,915	Other assets, net	1 · 5
Total assets	\$223,837,884	(\$39,188)	\$ —	\$223,798,696	Total assets	
Due to central bank and other banks	\$11,511,596	\$ —	\$ —	\$11,511,596	Due to central bank and other banks	
Financial liabilities at fair value through profit or loss	3,837	—	—	3,837	Financial liabilities at fair value through profit or loss	
Bills and bonds sold under agreements to repurchase	103,207	—	—	103,207	Bills and bonds sold under agreements to repurchase	
Accounts payable	3,386,690	—	(5,392)	3,381,298	Accounts payable	5
—	—	—	5,392	5,392	Current income tax liabilities	5
Deposits and remittances	193,866,022	—	—	193,866,022	Deposits and remittances	
Bank debentures	4,000,000	—	—	4,000,000	Bank debentures	
Accrued pension liabilities	304,726	—	(304,726)	—	—	5
Other financial liabilities	195,150	—	—	195,150	Other financial liabilities	
—	—	380,755	304,726	685,481	Liabilities reserve	2·3·4·5
Other liabilities	103,424	—	—	103,424	Other liabilities	5
Total liabilities	\$213,474,652	\$380,755	\$ —	\$213,855,407	Total liabilities	
Capital	\$7,069,476	\$ —	\$ —	\$7,069,476	Capital	
Capital surplus	2,017,724	—	—	2,017,724	Capital surplus	
Retained earnings					Retained earnings	
Legal reserve	\$1,642,841	\$ —	\$ —	\$1,642,841	Legal reserve	
Special reserve	41,937	—	—	41,937	Special reserve	10
Unappropriated earnings	(406,883)	(373,395)	—	(780,278)	Unappropriated earnings	8
Total retained earnings	\$1,277,895	(\$373,395)	\$ —	\$904,500	Total retained earnings	
Other equity items					Other equity	
Unrealized gain or loss on available-for-sale financial assets	(\$2,384)	(\$46,548)	\$ —	(\$48,932)	Unrealized gain or loss on available-for-sale financial assets	6
Other equity adjustments	521	—	—	521	Other	
Total other equity	(\$1,863)	(\$46,548)	\$ —	(\$48,411)	Total other equity	
Equity attributable to owners of parent	\$10,363,232	(\$419,943)	\$ —	\$9,943,289	Equity attributable to owners of parent	9
Total Shareholders' Equity	\$10,363,232	(\$419,943)	\$ —	\$9,943,289	Total Equity	
Total Liabilities And Shareholders' Equity	\$223,837,884	(\$39,188)	\$ —	\$223,798,696	Total Liabilities and Equity	

(2) Reconciliation of significant differences in consolidated balance sheet as of December 31, 2012

ROC GAAP		Effect of IFRS adoption		IFRS endorsed by FSC		Note
Item	Amount	Difference on recognition and evaluation	Presentation difference	Amount	Item	
Cash and cash equivalents	\$3,166,781	\$ —	\$ —	\$3,166,781	Cash and cash equivalents	
Due from the Central Bank and call loans to banks	24,635,414	—	—	24,635,414	Due from the Central Bank and call loans to banks	
Financial assets at fair value through profit or loss	1,459,442	—	—	1,459,442	Financial assets at fair value through profit or loss	
Bills and bonds purchased under agreements to resell	4,967,234	—	—	4,967,234	Bills and bonds purchased under agreements to resell	
Accounts receivable, net	961,619	—	(30,733)	930,886	Accounts receivable, net	5
—	—	—	30,733	30,733	Current income tax assets	5
Discounts and loans, net	162,044,345	—	—	162,044,345	Discounts and loans, net	
Available-for-sale financial assets, net	19,137,095	54,000	—	19,191,095	Available-for-sale financial assets, net	6
Held-to-maturity financial assets, net	—	—	—	—	Held-to-maturity financial assets, net	
Other financial assets, net	1,724,348	(100,440)	—	1,623,908	Other financial assets, net	6
Property and equipment, net	2,135,686	4,903	617,409	2,757,998	Property and equipment, net	2、5
Intangible assets, net	50,237	—	—	50,237	Intangible assets, net	
—	—	66,254	75,672	141,926	Deferred income tax assets, net	1、2、3、4
Other assets, net	750,636	—	(693,081)	57,555	Other assets, net	1、5
Total assets	\$221,032,837	\$24,717	\$ —	\$221,057,554	Total assets	
Due to central bank and other banks	\$11,935,679	\$ —	\$ —	\$11,935,679	Due to central bank and other banks	
Financial liabilities at fair value through profit or loss	613	—	—	613	Financial liabilities at fair value through profit or loss	
Bills and bonds sold under agreements to repurchase	68,914	—	—	68,914	Bills and bonds sold under agreements to repurchase	
Accounts payable	3,964,298	—	(7,376)	3,956,922	Accounts payable	5
—	—	—	7,301	7,301	Current income tax liabilities	5
Deposits and remittances	189,455,479	—	—	189,455,479	Deposits and remittances	
Bank debentures	4,000,000	—	—	4,000,000	Bank debentures	
Accrued pension liabilities	353,864	—	(353,864)	—	—	5
Other financial liabilities	152,116	—	—	152,116	Other financial liabilities	
—	—	387,352	368,864	756,216	Liabilities reserve	2、3、4、5
Other liabilities	195,689	273	(14,925)	181,037	Other liabilities	5
Total liabilities	\$210,126,652	\$387,625	\$ —	\$210,514,277	Total liabilities	
Capital	\$7,069,476	\$ —	\$ —	\$7,069,476	Capital	
Capital surplus	2,017,724	—	—	2,017,724	Capital surplus	
Retained earnings					Retained earnings	
Legal reserve	\$1,277,895	\$ —	\$ —	\$1,277,895	Legal reserve	
Special reserve	—	—	—	—	Special reserve	10
Unappropriated earnings	386,202	(310,426)	—	75,776	Unappropriated earnings	8
Total retained earnings	\$1,664,097	(\$310,426)	\$ —	\$1,353,671	Total retained earnings	
Other equity					Other equity	
Cumulative foreign currency translation adjustments	\$ —	(\$6,042)	\$ —	(\$6,042)	Exchange differences on translating the financial statements of foreign operations	7
Unrealized gain or loss on available-for-sale financial assets	154,401	(46,440)	—	107,961	Unrealized gain or loss on available-for-sale financial assets	6
Other equity adjustments	487	—	—	487	Other	
Total other equity	\$154,888	(\$52,482)	\$ —	\$102,406	Total other equity	
Equity attributable to owners of parent	\$10,906,185	(\$362,908)	\$ —	\$10,543,277	Equity attributable to owners of parent	9
Total Shareholders' Equity	\$10,906,185	(\$362,908)	\$ —	\$10,543,277	Total Equity	
Total liabilities and shareholders' equity	\$221,032,837	\$24,717	\$ —	\$221,057,554	Total Liabilities and Equity	



(3) Reconciliation of differences in consolidated comprehensive income for the period ended December 31, 2012:

ROC GAAP		Effect of IFRS adoption		IFRS endorsed by FSC	
Item	Amount	Difference on recognition and evaluation	Presentation difference	Amount	Item
Interest income	\$3,999,032	\$8,776	(\$17,873)	\$3,989,935	Interest income
Less: interest expense	(1,895,489)	11,941	—	(1,883,548)	Less: interest expense
Net interest income	\$2,103,543	\$20,717	(\$17,873)	\$2,106,387	Net interest income
Net Revenues Other Than Interest					Net Revenues Other Than Interest
Commission and fee revenues, net	426,171	214	(75)	426,310	Commission and fee revenues, net
Profit or loss from financial assets and liabilities at fair value through profit or loss	(12,711)	373	17,873	5,535	Profit or loss from financial assets and liabilities at fair value through profit or loss
Unrealized gain (loss) on available-for-sale financial assets	135,974	2,454	—	138,428	Unrealized gain (loss) on available-for-sale financial assets
Realized gain (loss) on held-to-maturity financial assets	264	5	—	269	Realized gain (loss) on held-to-maturity financial assets
Foreign exchange gain (loss)	75,309	(277)	—	75,032	Foreign exchange gain (loss)
Reversal of impairment loss on assets	(95,029)	(1,272)	—	(96,301)	Reversal of impairment loss on assets
Bad debts and overdue accounts collected	319,474	—	(319,474)	—	—
Other net non-interest income	52,388	3	—	52,391	Other Net Revenues Other Than Interest
Net revenue	\$3,005,383	\$22,217	(\$319,549)	\$2,708,051	Net revenue
Bad debt expense	(579,363)	(949)	319,474	(260,838)	Bad debt expense and provision for performance guarantee reserve
Operating expenses					Operating expenses
Personnel expense	(1,355,262)	(9,839)	—	(1,365,101)	Employee benefits
Depreciation and amortization expense	(76,107)	(2,457)	—	(78,564)	Depreciation and amortization expense
Other business and administrative expense	(565,299)	(28)	75	(565,252)	Other business and administrative expense
Net income (loss) before income tax	\$429,352	\$8,944	\$ —	\$438,296	Net income (loss) before income tax
Income tax (expense) benefit	(43,150)	63,148	—	19,998	Income tax (expense) benefit
Net income (loss)	\$386,202	\$72,092	\$ —	458,294	Net income (loss)
Exchange differences on translating the financial statements of foreign operations	—	—	—	(\$7,280)	
Unrealized valuation gain (loss) on available-for-sale financial assets	—	—	—	156,893	
Actuarial gains and losses on defined benefit plans	—	—	—	(10,990)	
Income tax relating to the components of other comprehensive income	—	—	—	3,105	
Other comprehensive income for the period, net of income tax	—	—	—	\$141,728	
Total Comprehensive Income For The Period	\$ —	\$ —	\$ —	\$600,022	

18.3 Significant Reconciliation Differences

(1) Classification of deferred income tax

The Bank and subsidiaries classify deferred tax assets or liabilities in accordance with the R.O.C. GAAP. That is, deferred tax assets or liabilities shall be classified as current or noncurrent according to the classification of their related assets or liabilities. A deferred tax asset or liability that is not related to an asset or liability for financial reporting, shall be classified as current or noncurrent according to the expected period to realize or settle a deferred tax or liability. Upon transition to the IFRSs, deferred tax assets or liabilities are classified as noncurrent assets or liabilities. The amount of other assets- deferred tax assets classified by the Bank and subsidiaries on January 1, 2012 and December 31, 2012 amounted to \$94,960 thousand and \$75,672 thousand, respectively.

Income tax effects requiring adjustment upon transition to the IFRSs and net changes to deferred income tax assets and liabilities calculated using the statutory tax rate:

Item	Note	January 1, 2012 (Note)	December 31, 2012
Tax effects of decommissioned liabilities	2	\$ –	\$1,390
Tax effects of employee benefits	3	–	57,008
Tax effects of preferential deposit for employees	4	–	6,618
Tax effects of cumulative translation adjustments	7	–	1,238
Total		\$ –	\$66,254

(Note) For the period ended January 1, 2012, the Bank derived accumulated loss. All amounts were estimated to be zero upon evaluating whether it's probable that the deferred income tax assets or liabilities will be realized.

(2) Decommissioned Liabilities

The Bank and subsidiaries elected to apply the exemption clause under IFRS 1 regarding the accounting treatment for decommissioning liabilities and accordingly made an adjustment to increase the value of assets by \$7,360 thousand and \$4,903 thousand on January 1, 2012 and December 31, 2012, respectively. The effect of such adjustment on the liabilities reserve was both \$13,078 thousand for the respective balance sheet dates. On the other hand, unappropriated earnings were decreased by \$5,718 thousand and \$6,785 thousand, while deferred income tax assets increased by \$0 and \$1,390 thousand, respectively. The Bank and subsidiaries also adjusted depreciation expense for 2012 upward by \$ 2,457 thousand and income tax expense downward by \$1,390 thousand.

(3) Employee benefits – actuarial gains or losses on defined benefit plan and the minimum pension liabilities

The Bank and subsidiaries undertake actuarial valuation on the defined benefit obligations in accordance with the R.O.C. GAAP and recognise the related pension cost and accrued pension liabilities. Upon transition to IFRSs, the Bank and subsidiaries undertake actuarial valuation on the defined benefit obligations in accordance with IFRS 19, “Employee Benefits”.

The Bank and subsidiaries have reset the actuarial gains or losses on defined benefit plan to zero on the transition date. As of January 1, 2012 and December 31, 2012, the liabilities reserve were increased by \$322,218 thousand and \$335,343 thousand, respectively, while unappropriated earnings were revised downward by \$322,218 thousand and \$278,335 thousand, respectively and deferred income tax assets increased by \$0 and \$57,008 thousand, respectively. For the year ended December 31, 2012, the Bank and subsidiaries adjusted the actuarial loss on defined benefit plan to \$15,782 thousand (after deducting income tax effects totaling \$3,233 thousand). On the other hand, for the year ended December 31, 2012, employee benefits were decreased by \$5,890 thousand and income tax expense by \$53,775



thousand.

(4) Preferential deposit for employees

IFRS 19 “Employee Benefits” endorsed by the FSC, Regulations Governing the Preparation of Financial Reports by Public Banks and Jin-Kuan-Yin-Fa Letter No. 10110000850 provide that, the portion of interest income derived from preferential interest rate for employees in excess of that derived from market rate, may be subject to the new IFRSs upon an employee's retirement. Excess interest paid to employees that have retired prior to January 1, 2012 shall be adjusted against unappropriated earnings based on actuarial calculation.

As of January 1, 2012 and December 31, 2012, the Bank and subsidiaries made adjustments to increase the liabilities reserve by \$45,459 thousand and \$38,931 thousand, respectively, decrease unappropriated earnings by \$45,459 thousand and \$32,313 thousand, respectively and increase deferred tax assets by \$0 and \$6,618 thousand, respectively. For the year ended December 31, 2012, the Bank and subsidiaries adjusted the actuarial gain on defined benefit plan to \$6,660 thousand (after deducting income tax effects of \$1,365 thousand). For the year ended December 31, 2012, the Bank and subsidiaries made an adjustment to decrease interest expense by \$14,139 thousand, increase employee benefits by \$15,636 thousand and decrease income tax expense by \$7,983 thousand.

(5) Differences in presentation

A. Interest income from financial instruments at fair value through profit or loss

Effective January 1, 2013, Article 13 of the “Regulations Governing the Preparation of Financial Reports by Public Banks” provide that interest income from financial instruments at fair value through profit or loss shall be reclassified to “profit or loss from financial assets or liabilities at fair value through profit or loss” .

For the year ended December 31, 2012, the Bank and subsidiaries made an adjustment to increase the profit or loss from financial assets or liabilities at fair value through profit or loss by \$17,873 thousand and decrease interest income by \$17,873 thousand.

B. Bad debt recovered

Upon adoption of the revised “Regulations Governing the Preparation of Financial Reports by Public Banks” effective from January 1, 2013, bad debts written off but subsequently recovered shall be adjusted against the balance of the allowance for doubtful accounts or bad debt expenses. As such, the balance of “bad debts and overdue accounts collected” and “bad debt expense” decreased by \$319,474 thousand for the year ended December 31, 2012.

C. Other assets

Pursuant to IFRS 16 endorsed by the FSC, the Bank and subsidiaries reclassified “land” upon which an office building will be constructed in the future in the amount of \$617,409 thousand from other assets to property and equipment, net as of both balance sheet dates being January 1, 2012 and December 31, 2012, respectively.

D. Customer Royalty Programmes

The Bank and subsidiaries adjusted the credit card reward revenue in accordance with IFRIC 13, “Customer Royalty Programmes” . Accrued expenses and expenses were re-accounted for as deferred revenue and a negative component of revenue.

As of January 1, 2012 and December 31, 2012, the Bank and subsidiaries made adjustments to decrease accounts payable by \$0 and \$75 thousand, respectively and increase other liabilities by \$0 and \$75 thousand, respectively. For the year ended December 31, 2012, the Bank and subsidiaries made adjustment to decrease other business and administrative expense by \$75 thousand and commission and fee revenues, net by \$75 thousand.

E. Other

In line with transition to IFRSs, as of January 1, 2012 and December 31, 2012, the Bank and subsidiaries reclassified accrued pension liabilities in the amount of \$304,726 thousand

and \$353,864 thousand to liabilities reserve, respectively and other liabilities totaling \$0 and \$15,000 thousand to liabilities reserve, respectively. As of January 1, 2012 and December 31, 2012, the Company and subsidiaries reclassified accounts receivable—tax refund receivable totalling \$33,357 thousand and \$30,733 thousand to current income tax assets, respectively and accounts payable, other totalling \$5,392 thousand and \$7,301 thousand to current income tax liabilities.

(6) Financial assets carried at cost

In accordance with the revised “Regulations Governing the Preparation of Financial Reports by Public Banks”, stocks and emerging stocks held by the Bank and subsidiaries are carried at cost. However, IAS39 provides that equity instrument may only be carried at cost if quoted prices in an active market are unavailable and that the fair value of the equity instrument cannot be reliably measured. For an equity instrument with no quoted price in an active market, if the fair value of the equity instrument may be reliably measured (that is, the variability in the range of reasonable fair value estimate is not significant for that equity instrument or probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value), the equity instrument shall be measured at fair value. The Bank and subsidiaries measured these financial assets at fair value as of January 1, 2012 and December 31, 2012 and reclassified these assets to available-for-sale financial assets. Effects of this change are as follows:

Item	January 1, 2012	Increase (Decrease)	December 31, 2012
Financial assets carried at cost—noncurrent	\$100,440	\$ —	\$100,440
Increase (decrease) in unrealised gain from financial instruments	(46,548)	108	(46,440)
Available-for-sale financial assets—noncurrent	\$53,892	\$108	\$54,000

(7) Cumulative translation adjustment

Under the R.O.C. GAAP, the Bank and subsidiaries used the various indicators to determine the functional currency. Upon transition to IFRSs, adoption of IAS 21, “The Effects of Changes in Foreign Exchange Rates” provides that priority considerations shall be given to the primary indicators while secondary indicators are used to support the judgment exercised to determine the functional currency. Based on the aforesaid principle, the functional currency is New Taiwan Dollar for all domestic branches and offices of the Bank, while the functional currency for OBU is the US Dollar. The financial reports of OBU for the year ended December 31, 2012 presented in USD were translated to NTD amounts. The translation resulted in a net decrease in cumulative translation adjustment amounting to \$6,042 thousand (after deducting income tax effects of \$1,238 thousand) for the year ended December 31, 2012, an increase in other liabilities by \$273 thousand and a net increase of \$7,007 thousand in profit (the net effect of interest income \$8,776 thousand, interest expense (\$2,198) thousand, commission and fee revenues, net \$214 thousand, unrealized gain (loss) on financial assets at fair value through profit or loss \$373 thousand, unrealized gain (loss) on available-for-sale financial assets \$2,454 thousand, realized gain (loss) on held-to-maturity financial assets \$5 thousand, foreign exchange gain (loss) (\$277) thousand, reversal of asset impairment loss (\$1,272) thousand, other net non-interest income \$3 thousand, bad debt expense (\$949) thousand, personnel expense (\$93) thousand, depreciation and amortization expense (\$1) thousand, and other business and administrative expense (\$28) thousand) reported in the consolidated income statement for the year ended December 31, 2012.



(8) Reconciliation of unappropriated earnings

Item	Note	January 1, 2012	December 31, 2012
Unappropriated earnings under R.O.C. GAAP		(\$406,883)	\$386,202
Adjustments:			
Decommissioned liabilities	2	(5,718)	(6,785)
Employee preferential savings deposit	4	(45,459)	(32,313)
Defined benefit plan	3	(322,218)	(278,335)
Cumulative translation adjustment	7	—	7,007
Subtotal		(\$373,395)	(\$310,426)
Unappropriated earnings under IFRSs		(\$780,278)	\$75,776

(9) Reconciliation of equity

Item	Note	January 1, 2012	December 31, 2012
Shareholders' equity under R.O.C. GAAP		\$10,363,232	\$10,906,185
Adjustments:			
Decommissioned liabilities	2	(5,718)	(6,785)
Employee preferential savings deposit	4	(45,459)	(32,313)
Defined benefit plan	3	(322,218)	(278,335)
Cumulative translation adjustment	7	—	965
Unrealized gain or loss on available-for-sale financial assets	6	(46,548)	(46,440)
Subtotal		(\$419,943)	(\$362,908)
Equity under IFRSs		\$9,943,289	\$10,543,277

(10) Special reserve

In accordance with Gin-Guan-Zheng-Fa letter No. 1010012865 of FSC dated on April 6, 2012, the Bank and subsidiaries shall set aside a special reserve equivalent to the portion of unrealized valuation increment and cumulative translation adjustment (gain) included under shareholders' transfer equity transferred to retained earnings due to exemption provided under IFRS 1 upon transition to IFRSs. Where the increase in retained earnings on transition date due to first adoption of the IFRSs is insufficient to make the provision, the Bank may make a provision equalling to the amount of increase in retained earnings arising from adoption of the IFRSs. Reversal of special reserve shall be based on the proportion of the original ratio of special reserve upon subsequent use, disposal or reclassification of related assets. The Bank and subsidiaries do not have unrealised valuation increment and cumulative translation adjustments and as such, are not required to set aside a special reserve upon first adoption of the IFRSs.

18.4 Significant Adjustments to Consolidated Statements of Cash Flows for the year ended December 31, 2012

- As of December 31, 2012 and January 1, 2012, a portion of "due from the Central Bank and call loans to banks" and bills and bonds sold with agreement to repurchase amounting to \$23,261,676 thousand and \$25,515,951 thousand respectively are debts that may be repaid at any time. These assets are an important part of the Bank's and subsidiaries' cash management. In accordance with the R.O.C. GAAP, the aforesaid cash flows are classified as cash flows from investing activities but shall be reclassified to cash and cash equivalents under the IFRSs.
- The transition from R.O.C. GAAP to IFRSs did not have material impacts on the Consolidated Statements of cash flows. The Bank and subsidiaries prepared the Statement of Cash Flows in accordance with the R.O.C. GAAP using the indirect method and account for interest received and paid as cash flows from operating activities and were not required to separately disclose interest income received. Notwithstanding the forgoing, IAS 7, "Statement of Cash Flows" prescribes that interest received by the Bank and subsidiaries for the year ended December 31, 2012 amounting to \$ 3,936,396 thousand shall be separately disclosed. In addition, the amounts of interest received and paid shall also be separately disclosed as cash flows from operating activities according to their nature.
- Reconciliation differences between the R.O.C. GAAP and IFRSs had no net impact on the cash flows.

6.5 AUDITED INDIVIDUAL FINANCIAL STATEMENTS FOR FY 2013

6.5.1 Balance Sheets

BANK OF KAOHSIUNG CO., LTD. INDIVIDUAL BALANCE SHEETS

December 31, 2013, December 31, 2012 and January 1, 2012

A/C No.	ASSETS Accounts	Note	December 31, 2013		December 31, 2012		January 1, 2012	
			Amount	%	Amount	%	Amount	%
11000	Cash & cash equivalents	6.1	\$ 3,329,141	1	\$ 3,166,781	2	\$ 2,840,102	1
11500	Due from the Central Bank of China and other banks	6.2	23,220,274	10	24,635,414	11	24,134,482	11
12000	Financial assets at fair value through profit or loss	6.3	1,590,421	1	1,459,442	1	1,615,849	1
14000	Available-for-sale financial assets, net	6.4	19,249,602	8	19,191,095	9	11,802,316	5
12500	Bills and bonds purchased under agreements to resell	6.5	3,460,558	1	4,967,234	2	5,878,341	3
13000	Accounts receivable, net	6.6	769,358	—	930,886	—	937,525	—
13200	Current income tax assets	6.7	19,862	—	30,733	—	33,357	—
13500	Discounts and loans, net	6.9	178,261,475	77	162,044,345	73	166,215,870	74
14500	Held-to-Maturity financial assets, net	6.10	—	—	—	—	5,566,536	3
15000	Equity method's investments, net		59,362	—	79,062	—	62,936	—
15500	Other financial assets, net	6.11	1,566,331	1	1,623,908	1	1,730,533	1
18500	Property and equipment, net	6.12	2,743,677	1	2,757,541	1	2,827,215	1
19000	Intangible assets, net	6.13	41,205	—	50,100	—	62,565	—
19300	Deferred income tax assets, net	6.8	133,821	—	141,926	—	94,960	—
19500	Other assets, net	6.14	56,742	—	55,337	—	56,658	—
10000	TOTAL		\$ 234,501,829	100	\$ 221,145,621	100	\$ 223,869,533	100

Unit: NT\$ Thousand

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

(Continued)



BANK OF KAOHSIUNG CO., LTD. INDIVIDUAL BALANCE SHEETS

December 31, 2013, December 31, 2012 and January 1, 2012

A/C No.	LIABILITIES AND SHAREHOLDERS' EQUITY Accounts	Note	December 31, 2013		December 31, 2012		January 1, 2012	
			Amount	%	Amount	%	Amount	%
	LIABILITIES							
21000	Due to Central Bank of China and other banks	6.15	\$ 15,024,665	6	\$ 11,935,679	5	\$ 11,511,596	5
22000	Financial liabilities at fair value through profit or loss	6.16	5,621	—	613	—	3,837	—
22500	Bills and bonds sold under agreements to repurchase	6.17	68,019	—	68,914	—	103,207	—
23000	Accounts payable	6.18	2,744,219	1	3,954,387	2	3,378,235	1
23200	Current income tax liabilities	6.7	5,813	—	1,112	—	1,112	—
23500	Deposits and remittances	6.19	198,765,408	85	189,552,300	86	193,944,262	87
24000	Bank debentures	6.20	6,000,000	3	4,000,000	2	4,000,000	2
25500	Other financial liabilities	6.21	138,703	—	152,116	—	195,150	—
25600	Provisions	6.22	855,490	—	756,216	—	685,481	—
29500	Other liabilities	6.24	144,849	—	181,007	—	103,363	—
20000	Total liabilities		\$ 223,752,787	95	\$ 210,602,344	95	\$ 213,926,244	95
	SHAREHOLDERS' EQUITY							
31000	Equity Attributable to Shareholders of the Parent							
31101	Ordinary share	6.25	\$ 7,210,492	3	\$ 7,069,476	3	\$ 7,069,476	3
31500	Capital surplus	6.25	2,016,605	1	2,017,724	1	2,017,724	1
32000	Retained earnings							
32001	Legal reserve	6.25	1,393,756	1	1,277,895	1	1,642,841	1
32003	Special reserve	6.25	—	—	—	—	41,937	—
32005	Unappropriated earnings (to be offset against losses)	6.26	214,246	—	75,776	—	(780,278)	—
	Total retained earnings		\$ 1,608,002	1	\$ 1,353,671	1	\$ 904,500	1
32500	Other equity	6.25	(\$86,057)	—	\$102,406	—	(\$48,411)	—
30000	Total equity		\$ 10,749,042	5	\$ 10,543,277	5	\$ 9,943,289	5
	TOTAL		\$ 234,501,829	100	\$ 221,145,621	100	\$ 223,869,533	100

Unit: NT\$ Thousand

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu

6.5.2 Income Statements

BANK OF KAOHSIUNG CO., LTD. INDIVIDUAL STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

A/C No.	Accounts	Note	2013.1.1~2013.12.31		2012.1.1~2012.12.31		Change%
			Amount	%	Amount	%	
41000	Interest income			143	\$3,989,935	148	4
51000	Less: Interest expenses			(65)	(1,883,945)	(70)	0
49010	Net interest income	6.27	\$2,268,873	78	\$2,105,989	78	8
	Net Revenues Other Than Interest						
49100	Commission and fee revenues, net	6.28	\$393,352	13	\$355,756	13	11
49200	Gain or loss on financial assets and liabilities at fair value through profit or loss	6.29	55,854	2	5,535	-	909
49300	Realized gain(loss) on available-for-sale financial assets	6.30	58,914	2	138,428	5	(57)
49400	Realized gain (loss) on held-to-maturity financial assets	6.31	-	-	269	-	(100)
49600	Foreign exchange gain (loss)		6,500	-	75,032	3	(91)
49700	Reversal of impairment loss on assets	6.32	(27,937)	(1)	(96,301)	(3)	(71)
49500	Adoption, the share of affiliates recognized under the equity method subsidiaries and joint loss.		44,571	2	49,808	2	
49800	Other net non-interest income	6.33	114,249	4	52,484	2	118
	Net revenue		\$2,914,376	100	\$2,687,000	100	8
58200	Allowance for credit loss and loss on guarantees	6.34	(\$400,838)	(14)	(260,838)	(10)	54
58400	Operating expenses						
58500	Employee benefits	6.35	(\$1,382,784)	(47)	(\$1,360,583)	(50)	2
59000	Depreciation expenses and amortization	6.35	(74,963)	(3)	(78,491)	(3)	(4)
59500	Other business and administrative expenses	6.36	(585,914)	(20)	(558,993)	(21)	5
61001	Net income (loss) before income tax		\$469,877	16	\$428,095	16	10
61003	Income tax (expense) benefit	6.7	(50,772)	(2)	30,199	1	(268)
64000	Net income (loss)		\$419,105	14	\$458,294	17	(9)
	Other comprehensive income:						
65001	Exchange differences on translating the financial statements of foreign operations		\$9,475	-	(\$7,280)	-	230
65011	Unrealized (loss) gain on available-for-sale financial assets		(196,294)	(6)	156,893	5	(225)
65031	Actuarial gains and losses on defined benefit plans		(28,080)	(1)	(10,990)	-	156
65091	Income tax relating to the components of other comprehensive income		3,163	-	3,105	-	2
65000	Other comprehensive income for the period, net of income tax	6.25	(\$211,736)	(7)	\$141,728	5	(249)
66000	Total Comprehensive Income For The Period		\$207,369	7	\$600,022	22	(65)
	Earnings per share (NT\$):						
67500	Basic	6.37	After Income Tax		After Income Tax		
			\$0.58		\$0.64		

Unit: NT\$ Thousand

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

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu



6.5.3 Statement of Changes in Equity

BANK OF KAOHSIUNG CO., LTD.
INDIVIDUAL STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Unit: NT\$ Thousand

Item	Retained Earnings			Other Equity			Total	Total Equity			
	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences On Translating The Financials Of Foreign Operations	Unrealized Gain (Loss) on Available-for-Sale Financial Assets			Other		
BALANCE, JANUARY 1, 2012	\$7,069,476	\$2,017,724	\$1,642,841	\$41,937	(\$780,278)	\$904,500	\$ —	(\$48,932)	\$521	(\$48,411)	\$9,943,289
Appropriation of prior year's earnings(Note 1)	—	—	(364,946)	—	364,946	—	—	—	—	—	—
Legal reserve to offset deficit	—	—	—	(41,937)	41,937	—	—	—	—	—	—
Special reserve to offset deficit	—	—	—	—	458,294	458,294	—	—	—	—	458,294
Net income (loss)	—	—	—	—	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	(9,123)	(9,123)	(6,042)	156,893	—	—	141,728
For the Year Ended Dec. 31, 2012	—	—	—	—	(9,123)	(9,123)	(6,042)	156,893	—	—	141,728
Total comprehensive income for the period	\$ —	\$ —	\$ —	\$ —	\$449,171	\$449,171	(\$6,042)	\$156,893	\$ —	\$ —	\$600,022
Other	—	—	—	—	—	—	—	—	(34)	(34)	(34)
Total Changes	\$ —	\$ —	(\$364,946)	(\$41,937)	\$556,054	\$449,171	(\$6,042)	\$156,893	(\$34)	(\$34)	\$599,988
BALANCE, DECEMBER 31, 2012	\$7,069,476	\$2,017,724	\$1,277,895	\$ —	\$75,776	\$1,353,671	(\$6,042)	\$107,961	\$487	\$102,406	\$10,543,277
BALANCE, JANUARY 1, 2013	\$7,069,476	\$2,017,724	\$1,277,895	\$ —	\$75,776	\$1,353,671	(\$6,042)	\$107,961	\$487	\$102,406	\$10,543,277
Stock dividends	13,765	(1,119)	—	—	(78)	(78)	—	—	—	—	12,568
Appropriation of prior year's earnings(Note 2)	—	—	—	—	(115,861)	(115,861)	—	—	—	—	(14,139)
Legal reserve	—	—	115,861	—	(14,139)	(14,139)	—	—	—	—	(14,139)
Cash dividends	—	—	—	—	(127,251)	(127,251)	—	—	—	—	—
Capital increase by capitalization of earnings	127,251	—	—	—	(127,251)	(127,251)	—	—	—	—	—
Net income (loss)	—	—	—	—	419,105	419,105	—	—	—	—	419,105
Other comprehensive income	—	—	—	—	(23,306)	(23,306)	7,864	(196,294)	—	—	(211,736)
For the Year Ended Dec. 31, 2013	—	—	—	—	(23,306)	(23,306)	7,864	(196,294)	—	—	(211,736)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	\$ —	\$ —	\$ —	\$ —	\$395,799	\$395,799	\$7,864	(\$196,294)	\$ —	(\$188,430)	\$207,369
Other	—	—	—	—	—	—	—	—	(33)	(33)	(33)
Total Changes	\$141,016	(\$1,119)	\$115,861	\$ —	\$138,470	\$254,331	\$7,864	(\$196,294)	(\$33)	(\$188,463)	\$205,765
BALANCE, DECEMBER 31, 2013	\$7,210,492	\$2,016,605	\$1,393,756	\$ —	\$214,246	\$1,608,002	\$1,822	(\$88,333)	\$454	(\$86,057)	\$10,749,042

Note 1: Remuneration to directors and supervisors and employee bonus was both nil.

Note 2: Remuneration to directors and supervisors and employee bonus was NT\$4,710 thousand and \$18,850 thousand, respectively. The accompanying notes are an integral part of the consolidated financial statements.

Chairman : Toong-Min Chen

President : Moan-Sheng Huang

Chief Accountant : Anna Hsu

6.5.4 Statements of Cash Flows

BANK OF KAOHSIUNG CO., LTD. INDIVIDUAL STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Unit: NT\$ Thousand

Item	2013.1.1~2013.12.31	2012.1.1~2012.12.31
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) before income tax	\$469,877	\$428,095
Adjustments:		
Income and expenses that do not affect cash flow:		
Depreciation expenses	55,998	63,104
Amortization expenses	18,965	15,387
Allowance for or (reversal) of credit losses	539,667	565,312
Net (gain) or loss on financial assets and liabilities at fair value through profit or loss	(55,854)	(5,535)
Net interest income	(2,268,972)	(2,105,989)
Dividend income	(36,097)	(38,153)
Net changes in credit guarantees	36,300	15,000
Adoption, the share of affiliates recognized under the equity method subsidiaries and joint loss.	(44,571)	(49,808)
Loss (gain) on disposal and scrapping of property and equipment	1	(11,483)
Loss (gain) on disposal of investments	(58,914)	(138,697)
Loss on impairment of financial assets	27,937	96,301
Total income and expenses that do not affect cash flow:	(\$1,785,441)	(\$1,594,561)
Changes in operating assets and liabilities:		
Net changes in operating assets		
Increase in due from the Central Bank of China and other banks	\$641,988	(\$1,844,100)
(Increase) decrease in financial assets at fair value through profit or loss	(70,117)	158,718
Increase (decrease) in accounts receivable	129,534	29,644
Increase (decrease) in discounts and loans	(16,743,186)	3,626,019
Total net changes in operating assets	(\$16,041,822)	\$1,970,281
Net changes in operating liabilities		
Increase (decrease) in due to Central Bank of China and other banks	\$3,088,986	\$424,083
Increase (decrease) in bills and bonds sold under agreements to repurchase	(895)	(34,293)
Increase (decrease) in accounts payable	(1,178,249)	592,891
Increase (decrease) in deposits and remittances	9,213,108	(4,391,962)
Increase (decrease) in other financial liabilities	(13,413)	(43,034)
Increase (decrease) in provisions for employee benefits	32,117	44,745
Total net changes in operating liabilities	\$11,141,654	(\$3,407,570)
Total net changes in operating assets and liabilities	(\$4,900,168)	(\$1,437,289)
Total adjustments	(\$6,685,609)	(\$3,031,850)
Net cash provided by (used in) operations	(\$6,215,732)	(\$2,603,755)
Interest received	4,187,992	3,936,396
Dividends received	100,368	71,835
Interest paid	(1,909,817)	(1,900,686)
Income tax refunded (paid)	(23,932)	(11,038)
Net cash provided by (used in) operating activities	(\$3,861,121)	(\$507,248)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(\$20,833,324)	(46,061,448)
Disposal of available-for-sale financial assets	20,637,437	44,599,003
Acquisition of bond investments with no active market	(21,588)	-
Proceeds from redemption of matured debt securities with no active market	26,251	19,452
Acquisition of held-to-maturity financial assets	-	(958,956)
Disposal of held-to-maturity financial assets	-	102,373
Proceeds from redemption of matured held-to-maturity financial assets	-	792,380
Proceeds from capital reduction of financial assets carried at cost	25,000	-
Acquisition of property and equipment	(39,358)	(13,294)
Disposal of property and equipment	-	31,347
Acquisition of intangible assets	(8,141)	(609)
Increase(decrease) in other financial assets	1,785	(626)
Increase in other assets	(3,587)	(1,244)
Net cash provided by (used in) investing activities	(\$215,525)	(\$1,491,622)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of bank debentures	\$2,000,000	\$ -
Increase(decrease) in guarantee deposit received	(2,319)	971
Increase in other liabilities	-	77,583
Decrease in other liabilities	(38,839)	-
Distribution of cash dividends	(14,139)	-
Net cash provided by (used in) financing activities	\$1,949,703	\$78,554
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH & CASH EQUIVALENTS	\$9,475	(\$7,280)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(\$2,117,468)	(\$1,927,596)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	26,426,457	28,356,053
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$24,310,989	\$26,428,457
Composition of cash & cash equivalents:		
Cash and cash equivalents in consolidated balance sheets	\$3,329,141	\$3,166,781
Due from the Central Bank of China and other banks that meet the definition of cash & cash equivalents in IAS No.7	17,521,290	18,294,442
Bills and bonds purchased under agreements to resell that meet the definition of cash & cash equivalents in IAS No. 7	3,460,558	4,967,234
Cash and cash equivalents in consolidated statements of cash flows	\$24,310,989	\$26,428,457

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 2013 & up to Mar. 2014: None.



7.1 Analysis of Financial Status

7.1.1 Analysis of Financial Status — IFRSs (Consolidated)

Unit : NT\$ Million

Item	Year	2013.12.31	2012.12.31	Difference	
				Amount	%
Cash & cash equivalents		3,329	3,167	162	5.12
Due from the Central Bank of China and other banks		23,220	24,635	(1,415)	(Note 1) (5.74)
Financial assets at fair value through profit or loss		1,590	1,459	131	8.98
Available-for-sale financial assets, net		19,250	19,191	59	0.31
Bills and bonds purchased under agreements to resell		3,461	4,968	(1,507)	(Note 2) (30.33)
Accounts receivable, net		758	931	(173)	(18.58)
Current income tax assets		20	31	(11)	(35.48)
Discounts and loans, net		178,261	162,044	16,217	(Note 3) 10.01
Held-to-Maturity financial assets, net		—	—	—	—
Other financial assets, net		1,566	1,624	(58)	(3.57)
Property and equipment, net		2,744	2,758	(14)	(0.51)
Intangible assets, net		41	50	(9)	(18.00)
Deferred income tax assets, net		134	142	(8)	(5.63)
Other assets, net		59	58	1	1.72
Total Assets		234,433	221,058	13,375	6.05
Due to Central Bank of China and other banks		15,025	11,936	3,089	(Note 4) 25.88
Financial liabilities at fair value through profit or loss		6	1	5	500.00
Bills and bonds sold under agreements to repurchase		68	69	(1)	(1.45)
Accounts payable		2,747	3,957	(1,210)	(Note 5) (30.58)
Current income tax liabilities		10	7	3	42.86
Deposits and remittances		198,689	189,455	9,234	(Note 6) 4.87
Bank debentures		6,000	4,000	2,000	(Note 7) 50.00
Other financial liabilities		139	152	(13)	(8.55)
Provisions		855	756	99	13.10
Other liabilities		145	181	(36)	(19.89)
Total Liabilities		223,684	210,514	13,170	6.26
Equity Attributable to Shareholders of the Parent					
Ordinary share		7,210	7,069	141	1.99
Capital surplus		2,017	2,018	(1)	(0.05)
Retained earnings		1,608	1,354	254	(Note 8) 18.76
Other equity		(86)	103	(189)	(Note 9) (183.50)
Total Equity		10,749	10,544	205	1.94

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

1. Caused by decrease of reserve amount due from CBC.
2. Caused by decrease of bills and bonds purchased under agreements to resell.
3. Caused by increase of long-term secured.
4. Caused by increase of due to other banks.
5. Caused by decrease of for clearing.
6. Caused by increase of deposits.
7. Caused by subordinated financial bonds issued.
8. Caused by 2012 earnings to cover losses for 2011, the surplus for the year relative to the increase.
9. Caused by increase of due to available-for-sale financial assets unrealized losses.

7.1.2 Analysis of Financial Status — IFRSs (Individual)

Unit : NT\$ Million

Item	Year		Difference	
	2013.12.31	2012.12.31	Amount	%
Cash & cash equivalents	3,329	3,167	162	5.12
Due from the Central Bank of China and other banks	23,220	24,635	(1,415)	(Note 1) (5.74)
Financial assets at fair value through profit or loss	1,591	1,459	132	9.05
Available-for-sale financial assets, net	19,250	19,191	59	0.31
Bills and bonds purchased under agreements to resell	3,461	4,968	(1,507)	(Note 2) (30.33)
Accounts receivable, net	769	943	(174)	(18.45)
Current income tax assets	20	31	(11)	(35.48)
Discounts and loans, net	178,261	162,044	16,217	(Note 3) 10.01
Held-to-Maturity financial assets, net	—	—	—	—
Equity method's investments, net	59	79	(20)	(25.32)
Other financial assets, net	1,566	1,624	(58)	(3.57)
Property and equipment, net	2,744	2,758	(14)	(0.51)
Intangible assets, net	41	50	(9)	(18.00)
Deferred income tax assets, net	134	142	(8)	(5.63)
Other assets, net	57	55	2	3.64
Total Assets	234,502	221,146	13,356	6.04
Due to Central Bank of China and other banks	15,025	11,936	3,089	(Note 4) 25.88
Financial liabilities at fair value through profit or loss	6	1	5	500.00
Bills and bonds sold under agreements to repurchase	68	69	(1)	(1.45)
Accounts payable	2,744	3,954	(1,210)	(Note 5) (30.60)
Current income tax liabilities	6	1	5	500.00
Deposits and remittances	198,765	189,552	9,213	(Note 6) 4.86
Bank debentures	6,000	4,000	2,000	(Note 7) 50.00
Other financial liabilities	139	152	(13)	(8.55)
Provisions	855	756	99	13.10
Other liabilities	145	181	(36)	(19.89)
Total Liabilities	223,753	210,602	13,151	6.24
Equity Attributable to Shareholders of the Parent				
Ordinary share	7,210	7,069	141	1.99
Capital surplus	2,017	2,018	(1)	(0.05)
Retained earnings	1,608	1,354	254	(Note 8) 18.76
Other equity	(86)	103	(189)	(Note 9) (183.50)
Total Equity	10,749	10,544	205	1.94

Note: Major reasons for change in assets, liabilities, and equity during the past two years: Please refer to the previous page (Consolidated) Note.



7.2 Analysis of Financial Results

7.2.1 Analysis of Financial Results — IFRSs (Consolidated)

Unit : NT\$ Million

Item	Year	2013.1.1~ 2013.12.31	2012.1.1~ 2012.12.31	Difference	
				Amount	%
Interest income		4,159	3,990	169	4.24
Less: Interest expenses		(1,890)	(1,884)	(6)	0.32
Net interest income		2,269	2,106	163	7.74
Net Revenues Other Than Interest		668	602	66	10.96
Net revenue		2,937	2,708	229	(Note 1) 8.46
Allowance for credit loss and loss on guarantees		(401)	(261)	(140)	(Note 2) 53.64
Operating expenses		(2,057)	(2,009)	(48)	2.39
Net income (loss) before income tax – operating department		479	438	41	9.36
Income tax (expense) benefit		(60)	20	(80)	(Note 3) (400.00)
Net income (loss) – operating department		419	458	(39)	(8.52)
Net income (loss) – non-operating department		0	0	0	—
Net income (loss)		419	458	(39)	(8.52)
Other comprehensive income for the period, net of income tax		(212)	142	(354)	(Note 4) (249.30)
Total comprehensive income for the period		207	600	(393)	(Note 4) (65.50)
Net income (loss) attributable to: Shareholders of the parent		419	458	(39)	(8.52)
Net income (loss) attributable to: Minority interest		0	0	0	—
Total comprehensive income for the period attributable to: Shareholders of the parent		(212)	142	(354)	(Note 4) (249.30)
Total comprehensive income for the period attributable to: Minority interest		0	0	0	—
Earnings per share (NT\$)		0.58	0.64	(0.06)	(9.38)

Note : 1. Caused by interest income increased discounts and loans, asset impairment losses of financial markets due to the decrease in non-active.

2. Caused by increase of due to allowance for credit loss and loss on guarantees.

3. Caused by increase of due to Income tax expense.

4. Caused by due to available-for-sale financial assets and unrealized valuation loss on defined benefit plan actuarial losses.

7.2.2 Analysis of Financial Results — IFRSs (Individual)

Unit : NT\$ Million

Item	Year	2013.1.1~ 2013.12.31	2012.1.1~ 2012.12.31	Difference	
				Amount	%
Interest income		4,159	3,990	169	4.24
Less: Interest expenses		(1,890)	(1,884)	(6)	0.32
Net interest income		2,269	2,106	163	7.74
Net Revenues Other Than Interest		645	581	64	11.02
Net revenue		2,914	2,687	227	(Note 1) 8.45
Allowance for credit loss and loss on guarantees		(401)	(261)	(140)	(Note 2) 53.64
Operating expenses		(2,043)	(1,998)	(45)	2.25
Net income (loss) before income tax – operating department		470	428	42	9.81
Income tax (expense) benefit		(51)	30	(81)	(Note 3) (270.00)
Net income (loss) – operating department		419	458	(39)	(8.52)
Net income (loss) – non-operating department		0	0	0	—
Net income (loss)		419	458	(39)	(8.52)
Other comprehensive income for the period, net of income tax		(212)	142	(354)	(Note 4) (249.30)
Total comprehensive income for the period		207	600	(393)	(Note 4) (65.50)
Earnings per share (NT\$)		0.58	0.64	(0.06)	(9.38)

Note : Significant change issues, Please refer to the table (Consolidated) Note.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Past Two Years

Unit : %

Item	Year	2013	2012	Comparison %
Cash flow ratio (%)		Note	Note	—
Cash flow adequacy ratio (%)		—	—	—
Cash flow satisfied ratio (%)		Note	Note	—

Note : Cash flow from operating activities was a net outflow.

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
24,311	1,687	56	25,942	—	—

Note : 1. Analyses on change of cash flow in the current year:

- (1) Operating activities: due to decrease in discounts and loans.
- (2) Cash outflow: due to increase in acquisition of real estate and equipment.

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 2013

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	2014.4.2	120	1. NT\$6 million has been paid in 2012. 2. It is estimated to pay NT\$60 million in Jan. 2014. 3. It is estimated to pay NT\$48 million in May 2014. 4. It is estimated to pay NT\$6 million in May. 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 2013, 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 of profit	Source of profit
2013	81	Recognized earnings and cash Dividends
2012	85	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
2013	18.57	Asset impairment is recognized for Kaohsiung Rapid Transit Corporation of investee.
2012	25	Asset impairment is recognized for Kaohsiung Rapid Transit Corporation of investee.

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:

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.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> <p>(5) Stress Testing 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>

Item	Contents
	<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 (PD x LGD x EAD) to complete the pressure test 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 FSC. Monthly credit risk monitoring results reported Assets and Liabilities and Risk Management Committee. The credit risk monitoring quarterly results reported Assets and Liabilities and Risk Management Committee and the Board of Directors.</p>
4. Credit risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools.	<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>

Guidance Description: The Standard Bank Act applies in this table.

(2) Exposure and capital charge after risk mitigation under the credit risk standard approach

Unit : NT\$ Million at 2014.3.31

Item	Exposure after Risk Mitigation	Capital Charge
Sovereign country	36,536	1
Non-central government public sector	37,863	817
Banks (including multi-development banks)	5,714	165
Enterprise (including securities and insurance)	67,208	5,215
Retail exposure	45,128	2,691
Real estate for residential	31,199	1,786
Equity securities investments	58	18
Other assets	4,661	266
Total	228,368	10,960



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

(1) Securitization risk 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.
6. general qualitative disclosure requirements, comprising: (1) The purpose of engaging in asset securitization activities, and banks engaged in re-securitization activities and risks borne by the type reserved. (2) Other assets securitized risks (eg liquidity risk) inherent. (3) asset securitization process, banks play a variety of roles, and the degree of participation of banks in each process. (4) describe changes in the credit and market risk of securitization exposures involved in the monitoring process adopted. (5) the bank at risk securitization and re-securitization of credits reserved, the use of credit risk.	The Bank did not hold a founding banks.
7. Summary of bank asset securitization accounting policies.	The Bank did not hold a founding banks.
8. In the banking book, the asset securitization used external rating agency (ECAI) name, and its use in the case of securitization exposures for each asset class.	The Bank did not hold a founding banks.
9. Interpretation (such as asset moves in the inter-bank book and the trading book) any material changes since the last reporting period of quantitative information.	The Bank did not hold a founding banks.

Guidance Note: No. 6 to No. 9, there were still only the outer parts of the circulation of the founding banks are required to fill in the square.

(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\$ Thousand at 2014.3.31

of The role books of bank	Type of Risk Exposure Type	Type of Assets	Traditional				combo		Total		
			Amount of Risk Exposure				Capital Charge (2)	Amount of Risk Exposure Reserve or purchase (3)	Capital Charge (4)	Amount of Risk Exposure (5)=(1)+(3)	Capital Charge (6)=(2)+(4)
Reserve or purchase	Liquidity financing facility is provided	Provide credit enhancement.	Subtotal (1)								
Non- originator bank	Banking	Collateralized Debt Obligation (CDO)	73,761	0	0	73,761	0	0	73,761	73,761	
		Collateralized Loan Obligation (CLO)	298,802	0	0	298,802	0	0	298,802	26,645	
		Structured Investment Vehicle (SIV)	34,670	0	0	34,670	0	0	34,670	34,670	
	Trading										
	Subtotal		407,233	0	0	407,233	0	0	407,233	135,076	
Originator bank	Banking										
	Trading										
	Subtotal										
Total			407,233	0	0	407,233	0	0	407,233	135,076	



(4) Information on securitized products

A. Summarization of information about investment in securitization products.

Unit: NT\$ Thousand at 2014.3.31

Item	Account	Original Cost	Accumulated Value Income	Accumulated Impairment	Book Value
Collateralized Debt Obligation (CDO)	Bond investment without market price	118,947	0	37,266	81,681
Collateralized Loan Obligation (CLO)		292,824	0	0	292,824
Structured Investment Vehicle (SIV)		144,079	0	110,066	34,013

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:

Item	Contents
1. Operational risks management strategy and flow.	<ul style="list-style-type: none"> ■ 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. ■ Flow 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. <ul style="list-style-type: none"> ◆ Identity : 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. ◆ Measure : 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. ◆ Communication : 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.

Item	Contents
	<ul style="list-style-type: none"> ◆ Monitor and Controlling : 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>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.
<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) 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) 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) 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. 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>



Item	Contents
	<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>Monthly credit risk monitoring results reported Assets and Liabilities and Risk Management Committee.</p> <p>The credit risk monitoring quarterly results reported Assets and Liabilities and Risk Management Committee and the Board of Directors.</p>
4. Operational risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools.	<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.
5. Methods adopted to legal capital charge.	Basic indicator approach.
Advanced measurement approach to expose the project.	
1. Descriptions Advanced measurement approach adopted by the bank, including relevant internal and external factors considered in the measurement method. While partially used AMA, scope and coverage scenarios using different methods.	NA
2. Advanced measurement method using banks to reduce operational risks described use of insurance.	NA

Guidance Description: The Advanced Measurement Banking Law, please fill in the case of the Advanced Measurement Approach increase disclosure project, if not then fill not applicable (NA).

(2) Operational Risks Capital Charge

Unit : NT\$ Million

FY	Gross Income	Capital Charge
2013	2,806	140
2012	2,611	131
2011	2,436	122
Total	7,853	393

4. Market Risks Management System and Capital Charge

(1) 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. ◆ 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.



Item	Contents
	<ul style="list-style-type: none"> ◆ 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.
3 Market risks scope and features of managing report, measuring system	<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>
4. Market risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools	<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.

Guidance Description: The Standard Bank Act applies in this table.

(2) Market risk capital charge

Unit: NT\$ Million at 2014.3.31

Item	Capital Charge
Interest rate risks	106
Equity exposure risks	42
Foreign exchange risks	196
Product risks	0
Total	344

5. Liquidity Risks

(1) Maturity analysis of assets and liabilities :

A. Analyses of the Structure of the Maturity Date (NT\$) as follows: Please refer to page 159.

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

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

2013.12.31

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	578,226	62,754	64,143	43,304	63,808	344,217
Main matured cash outflow	612,072	260,150	201,339	38,099	29,416	83,068
Duration gap	(33,846)	(197,396)	(137,196)	5,205	34,392	261,149

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

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.

Absorption of long-term stable foreign currency deposits to adjust maturity.

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 FSC announced "Regulations Governing Foreign Exchange Business of Banking Enterprises".	DBU are allowed to operate the RMB business. This will help increase the foreign exchange business volume of the Bank.	The Bank's DBU commenced the RMB foreign exchange service on Feb. 6, 2013 and launched preferential RMB deposits on Feb. 25, aiming to increase its foreign currency deposits in RMB.
The CBC announced the scope, application procedures, operational guidelines and reporting requirements for banks when handling RMB derivative products.	1. The government opened the deliverable/non-deliverable financial products, which involves RMB exchange or interest rates, as well as the relevant structured products.	The Bank is allowed to operate the RMB forward and SWAP transactions.



Changes	Impact	Responsive Measures
	2. The government opened the derivative financial products and structured products, which are linked to listed stock indices or individual stocks and are related to the Mainland China area.	
The CBC designated foreign exchange banks may, in accordance with the “Directions Governing the Recommendation of Foreign-exchange-related Structured Products by Designated Foreign Exchange Banks” , apply to authorize its designated branches to handle the recommendation of foreign-exchange-related structured products.	Increase foreign exchange designated branches may conduct Foreign-exchange-related Structured Products Rrecommend business, providing customers with diversified financial pipeline.	To coincide with the regulatory changes, the Bank has established “The Directions of Authorization for Recommending the Foreign-Exchange-Related Structured Products”.
The FSC announced Article 29-1 of the “Directions Governing the Compilation of Financial Statements by Publicly-Listed Banks”.	In accordance with regulations related to important financial and business information published on the website, enabling the Bank to establish operational information transparency, build customer confidence.	According to regulations.
The FSC announced the information to be reported by Banks to comply with the “Principles for Capital Adequacy Supervision and Review”.	Enhanced reporting data content, more in line with the FSC supervising needs.	The Bank shall prepare the relevant information for the Pillar 2 reporting in accordance with the revised regulations.
The FSC announced the capital adequacy disclosure requirements for banks.	Enhanced transparency of information, setting capital adequacy and risk management area on the website and expose consolidated capital adequacy ratio calculation range, qualitative information about capital adequacy ratio and capital structure, credit, market and operational risk management system and Capital etc. and quantitative information.	The Bank shall prepare the relevant information for the Pillar 3 reporting in accordance with the revised regulations.
The FSC announced the partially-revised “Directions for the Disposal of Non-performing Loans by Financial Institutions” and the relevant explanatory notes.	To ensure that the debtor, not because of the Bank debt transfer, undue collection, the Bank engaged in buying debt should be transferred to respond negatively to set qualifications, and agreed without undue delinquent behavior.	The Bank has revised its “Directions for the Disposal of Non-performing Loans” accordingly.
The CBC designated the “Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions” and “Directions for Banking Enterprises while Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions” .	The Bank shall print the “Declaration Form for Foreign Exchange Receipts and Disbursements or Transactions” according to the revised format to meet its operational requirements.	The Declaration Form and the relevant computer program shall be revised accordingly.

Changes	Impact	Responsive Measures
The Bankers Association of the ROC has established/revised the “Directions Governing the Management of OBU Foreign Currency Checking Accounts” and the “Example of OBU Foreign Currency Checking Account Agreement”.	By order of the increase was for OBU business scope expansion and RMB checking account business.	The Bank has revised its “Regulations Governing the Management of OBU Foreign Currency Checking Accounts” and “OBU Foreign Currency Checking Account Agreement” accordingly.
The FSC announced the “Regulations Governing the Deposit Accounts and Suspicious or Unusual Transactions”.	When strengthen customer accounts, the second identity document recognition capabilities.	The Bank has revised its “Regulations Governing the Deposit Accounts and Suspicious or Unusual Transactions” accordingly.
The FSC announced the “Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises”.	While processing applications for investment-linked insurance products, the insurance firm should consider the applicant’s suitability and risk tolerance, and should not offer any product that is beyond the financial means of or unsuitable for the applicant.	To coincide with the regulatory changes, the Bank has amended the “Bank of Kaohsiung – Regulations to Ensure Product and Service Suitability to Customers when Handling Bancassurance Business.” and the “Operational Handbook for Bancassurance Business”.
The FSC announced the newly-established “Mandatory Provisions for the Standard Contracts for Unsecured Consumer Loans” and “Prohibitory Provisions for the Standard Contracts for Unsecured Consumer Loans” .	Providing customers with the FSC in line with the terms of the contract specifications in order to build customer trust relationships.	The Bank has revised its agreement for unsecured personal loans, the computer program for calculating the default penalty, as well as its internal procedural guidelines accordingly.
The FSC announced the financial institutions are required to unconditionally and voluntarily reactivate all dormant accounts within three months.	Need to modify the system to relieve dormant accounts between state.	Deposits with the revised contract and internal operating procedures, full repeal dormant account relevant regulations.

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 popularization of smartphones.	The Bank also endeavors to offer diversified e-banking services to elevate customer convenience, thereby facilitating the Bank's business development and increasing its competitiveness.	The Bank is currently constructing its mobile banking service system, enabling customers to conduct account enquiries, transfers, payments and fund transactions, etc. through their smartphones.

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.

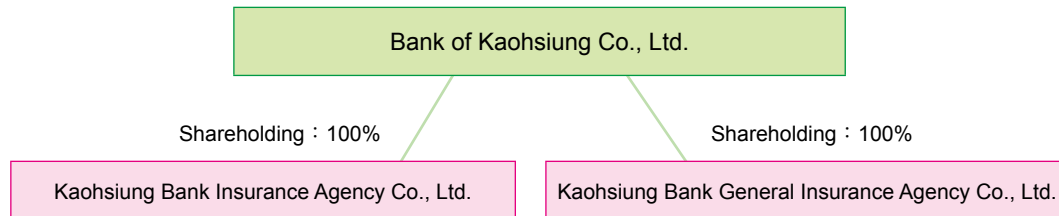
7.8 Other Significant Events: None.

8.1 Summary of Affiliated Companies

8.1.1 Consolidated Statements of Operation of Affiliated Companies

1. Brief Introduction

(1) Affiliated Companies Chart



(2) Basic Information of Affiliated Companies

Unit : NT\$ Million at 2014.03.31

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

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

(4) Directors and Supervisors of Affiliated Companies

Unit : Share / % at 2014.03.31

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	Johnson Huang	500,000	100.00
	Director	Yuan-Chin Shiang	500,000	100.00
	Director	Tsui-Mei Hsu	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



2. Affiliated Companies Business Review and Achievements

Unit : NT\$ Million at 2013.12.31

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	8.60	0.55	8.05	3.64	2.12	1.84	3.67
Kaohsiung Bank Insurance Agency Co., Ltd	3.00	89.48	38.18	51.30	205.93	51.20	42.73	142.42

8.1.2 Consolidated Financial Statements of Affiliated Companies

1. Declaration

BANK OF KAOHSIUNG CO., LTD.

Declaration

Mar. 27, 2014

The companies included in the consolidated financial statements of affiliated enterprises prepared by the Bank for FY 2013 (from Jan. 1, 2013 to Dec. 31, 2013) 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. 27, 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 :

2. The Bank's Audited Consolidated Financial Statements for FY 2013, please refer to page 90~95.

8.1.3 Affiliated Companies Report

1. Relation of the "parent company and wholly-owned subsidiary" : Please refer to page 215 for "Special Disclosure – Summary of Affiliated Companies".
2. Transactions, property trade, financing, assets rental, and endorsement between the parent company and wholly-owned subsidiaries: Please refer to page170 for "Notes to Financial Statements 10. Related Party Transactions" .

8.2 Private Placement Security and Financial Bonds in FY 2013 and Up to Mar. 2014: None.

8.3 The Shares in the BOK Held or Disposed of by Subsidiaries in FY 2013 and Up to Mar. 2014: None.

8.4 Other Supplementary Disclosure : None.

No	Item	Reference page or description
1	Significant Accounting Policies	101~111
2	The accounting principles adopted	97~101
3	Real estate depreciation method and useful lives	108
4	Analysis of other operating divisions	181
5	Assets, liabilities, based on the evaluation and assessment of subjects to mention the way the underlying column	103~105
6	Name of the Certified Public Accountant Firm and a Unqualified Opinion is Expressed in the Independent Auditor's Report	90
7	The Amount and Nature of Non – Audit Fees Paid to the Certified Public Accountant and the Related Party of the CPA	47
8	Affiliated Enterprises Chart and Stock Structure of the Related Parties	215
9	The Endorsement, Guarantee, Loans to Others, and Derivative Commodity Transaction of the Related Parties	1. Please refer to page 170~173 2. The Relative parties don't have endorsement, guarantee, loans to others, and derivative transactions in FY 2013.
10	Disclosure of related party transaction information (including affiliates)	170~173
11	Management team to review the company's operations	196~214
12	Review of the Macro – Economy Environment and the Trend of Bank Industry	Please refer to page 3 for “Domestic and Foreign Economic and Financial Environment” and page 65~66 for “Market Analyses”.
13	Plans for Long-term and Short-term Business Development	67~68
14	Future Plans, Fees and progress of R&D	67
15	Services Details	Please refer to page 65~66 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”.
16	Products Package	63
17	Key Performance Indicator (KPI)	Please refer to page 220 appendix I.
18	The Historical Performance Index	Please refer to page 80~84 for item “6.2 Five-Year Financial Analysis Profitability”.
19	The Risk Management Policy	200~214
20	Organizational Structure of Risk Management	Please refer to page 202 for “Credit risks management organization and structure”, to page 207 for “Operational risks management organization and structure”, to page 209 for “Market risks management organization and structure”, to page 204 for “Asset Securitization management organization and structure”.



No	Item	Reference page or description
21	Adopt hedge accounting and its objectives and methods	The Bank derivative contracts outstanding as the only kind of forward foreign exchange and currency swap, the former Department of accommodating customers' needs and to managing the Bank's position, the latter system needs to cope Order of foreign currency funds for the site . No customer engage in other high risk complex derivative commodity trading, it did not adopt hedge accounting.
22	The Training of Managers for Corporate Governance	Please refer to page 220 appendix III.
23	Employees' Further Education and Training	69
24	The staff welfare measures, the pension system and its implementation status	71
25	The details about licenses and certificates acquired by the staff related to financial information disclosure from the competent authorities.	Please refer to page 220 appendix II.
26	The Behavior and Ethics Codes of Staffs	<ol style="list-style-type: none"> 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 221 appendix IV. 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.
27	Measure for Working Environment and Staffs' Safety Protection	<ol style="list-style-type: none"> 1. Security and sanitation: <ol style="list-style-type: none"> (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. (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, " (3)"H1N1 Responsive Measures" and an emergency responsive team were established during the widespread H1N1 virus. 2. Employees' personal safety and the safety of the working environment <ol style="list-style-type: none"> (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. (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. (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. (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.

No	Item	Reference page or description
28	Social Responsibilities Performed	70
29	Directors, Supervisors, and Their Education and Experience, Shareholdings, and the Elected Date	11~12
30	The Independence of Directors and Supervisors	13~14
31	Directors and Supervisors Serviced Concurrently with the Bank and the Other Company Information	12
32	The Remuneration of Directors and Supervisors	19~24
33	The Remuneration of President and Vice Presidents	24~25
34	The Pledged Shares of Directors, Supervisors, Officers, and Major Shareholders	49~51
35	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 28~29. 2. The Bank did not establish an auditing committee up to March 2014.
36	Operations of the Board of Directors and Audit Commission	1. Operations of the Board of Directors, please refer to page 28. 2. The Bank has not established auditing committee up to March 2014.
37	The Training of Directors and Supervisors	39
38	Corporate Governance Practices	30-32
39	Summarization of Resignation and Dismissal of Parties Related to the Financial Statement	47
40	Name and Title of the Top Ten Employees Who Were Distributed Employees Share Options Receipts.	The Bank has not issued employees share options receipts.
41	Name and Title of the Top Ten Employees Who Were Distributed Employees' Bonus and the Amounts in 2013.	Please refer to page 221 appendix IV.
42	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.
43	The Top Ten Shareholders and the Actual Shareholdings and Ratio	56
44	Information for Top Ten Shareholders Being the Related Party	52
45	Major Resolutions in the Regular Shareholders' Meeting and the Execution of the Resolutions Reached	46
46	Dividend policy	57 · 132
47	Members of the Remuneration Committee and the attendance rate	32~33
48	Regular evaluation of auditors' independence	30
49	Perform integrity management situations	37~39



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

Unit : %, at 2013.12.31

KPI	The Bank	The Average of Domestic Banks
Capital Adequacy Ratio	9.29	11.87
Ratio of NPL	0.60	0.38

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

2013.12.31

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)	22
		Certified Internal Auditor (CIA), the Institute of Internal Auditors (IIA)	3
Financing & accounting staffs	30	Certified Public Accountants, CPA	1

Appendix III: Training record of manager in 2013

Period	Title	Name	Training Record		
			Class Name	Hours	Unit in Charge
Q1	President	Moan-Sheng Huang	Section 274, Trust supervisors (including on-the-job) training session	3	Taiwan Academy of Banking and Finance
Q2	Board of Directors/ Auditing Dept. Chief Auditor	Chung-Chen Lin	Domestic bank internal auditors serving Course	4	The Bankers Association Of The Republic Of China
			Section 36, Seminar for audit supervisors.	13	Taiwan Academy of Banking and Finance
Q3	Board of Directors/ Auditing Dept. Chief Auditor	Chung-Chen Lin	Section300, Trust supervisors (including on-the-job) training session	3	Taiwan Academy of Banking and Finance
	Treasury Dept., Vice President and General Manager	J. C. Shou-Jen Chen	Section300, Trust supervisors (including on-the-job) training session	3	Taiwan Academy of Banking and Finance
	Business Administration Dept., Vice President and General Manager	Anna Hsu	Experience sharing on the 3rd quarter internet-banking strategies and developments.	2.5	Financial Information Service Co., Ltd.

Period	Title	Name	Training Record		
			Class Name	Hours	Unit in Charge
Q4	President	Moan-Sheng Huang	The "Bank 3.0 – Transformation for a Bank of Future" Breakfast Meeting with the CEO	2	Taiwan Academy of Banking and Finance
	Exec. Vice President	Chun-Ching Ko	Section 2, Introduction of the Latest Tax Act – a company should be concerned.	3	Taiwan Securities Association
	Business Administration Dept., Vice President and General Manager	Anna Hsu	Sustainable Learning Program for Accounting Supervisors	12	Account Research and Development Foundation

Appendix IV: Name and Title of the Top Ten Employees Who Were Distributed Employees' Bonus and the Amounts in 2013.

Unit : NTD

Name	Title	Total Bonus
Chun-Ching Ko	Exec. Vice President	265,706
Yi-Jong Liou	Exec. Vice President	
Tsui-Mei Hsu	Chief Secretary	
Anna Hsu	Business Administration Dept., Vice President and General Manager	
Hwa-Jen Lee	Executive Administration Dept., and Human Resources Dept., Vice President and General Manager	
Jin-Ann Wang	Business Dept., General Manager	
Yen-Ching Hsien	San Min Branch, General Manager	
Jin-Biau Tsai	Hsiao Kang Branch, General Manager	
Chiu-Chin Huang	Shih Fu Branch, General Manager	
Aaron Ting	Taipei Branch General Manager.	

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. Furthermore, 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.

Unit	Address	TEL
Head Office	168 Po Ai 2nd Road, Tsoying District, Kaohsiung, Taiwan	(886)7-557-0535
Minicipal 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, Nanthung 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, Chunggho 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



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