高雄銀行
BANK OF KAOHSIUNG

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ANNUAL REPORT

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Deputy spokesperson

Name：Johnson Huang
Title：Exec. Vice President
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Auditors

CPA：Jen-Yao Hsieh, Ping-Chang Su
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Website：www.crowehorwath.net/tw/

Chien, Chen-Cheng

Chairman

Although four cuts in the prime rate conducted by the Central Bank and the inadequacy of Tier I capital, the Bank still managed to achieve a moderate business performance. The Bank yielded after-tax earnings of NT$648 million in 2016, which was an increase of 9.64% from 2015 with earnings per share at NT$0.79 or an increase of 9.72% from 2015. Asset quality and financial structure were sound, with NPL ratio down from 0.48% as of the previous year to 0.45%. Debts coverage ratio improved from 249.73% as of the previous year to 253.64%, which is a record high.

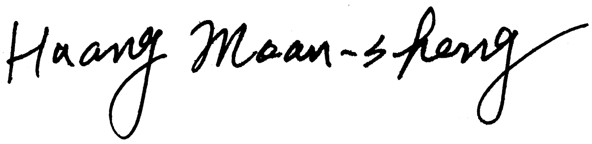
2017 will be the year of uncertainty and challenges under the new economic policy of US President Trump, the repercussions of Brexit, and the economic transformation in Mainland China. However, focusing on the strategic plans of segment-oriented marketing, integrated sales approaches, reinforced compliance practices, sophisticated HR system and advanced IT system, the Bank will relentlessly improve its business and stay progressive in the years to come.

Reviews of our operations in 2016 and our business plans for 2017 are described in following pages.

1.1 Operating Performance in 2016

1.1.1 Domestic and Foreign Financial Environment

Except the concern of negative rate in 2016, the EU referendum in the UK , the Presidential Election of the United States of America, and the frequent terror attacks together caused severe turbulence to the financial market. The domestic real property market was sluggish with a decline in transaction volume and prices, as the Central Bank took caution along with anxiety about the domestic economic performance. Accordingly, mortgages and construction loans turned stagnant. In addition, the shortcomings in compliance of banking laws and security problems of ATMs compelled the competent authority to take more efforts and caution in monitoring and security management.



President

1.1.2 Transfer of AML Operations:

The operations of Anti-Money Laundering have been transferred from Business Administration Department to Compliance Department . The latter will be responsible for AML/CFT control and related operations.

1.1.3 Results of Business Plans and Operating Strategies for FY 2016

Unit：NT$/US$ 100 Million, %

Items \ FY	2016	2015	Increase (or decrease) amount	Increase (or decrease) ratio
Deposit Business	2,257.43	2,338.04	(80.61)	(3.45)
Loan Business	1,712.65	1,768.64	(55.99)	(3.17)
Foreign Exchange Business (US$)	53.21	53.65	(0.44)	(0.82)
Commission & service fees	5.28	5.08	0.20	3.94

1.1.4 Execution of Business Target:

In 2016, the average deposits balance was NT$225.743 billion, or 98.15% of the deposits target; the average loans balance was NT$171.265 billion, or 97.31% of the loans target; foreign exchange business was US$5.321 billion, or 95.02% of the target; commission & service fees was NT$528 million, or 97.42% of the target; net income before tax was NT$691 million, or 101.69% of the target.

1.1.5 Analyses of Financial Revenue, Expenditure and Profitability

The changes in 2016 in budget settlement as compared with the same period of the previous year (2015) are shown below:

Unit : NT$ Million,%

Item		2016	2015	Increase (or decrease) amount	Increase (or decrease) ratio
Net interest revenue		2,522	2,482	40	1.61
Net non-interest revenue		788	782	6	0.77
Net revenue		3,310	3,264	46	1.41
Credit loss expenses		(365)	(371)	(6)	(1.62)
Operating expenses		(2,254)	(2,251)	3	0.13
Income before tax		691	642	49	7.63
Net income		648	591	57	9.64
EPS on after income tax		0.79	0.72	0.07	9.72
ROA	Before income tax	0.27	0.24	0.03	－
	After income tax	0.25	0.22	0.03	－
ROE	Before income tax	5.68	5.53	0.15	－
	After income tax	5.32	5.09	0.23	－

1.1.6 Status of R & D

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

1.2 Business Plan in 2017

1.2.1 Business Objectives and Important Operating Policies

Ⅰ. Loan－Maintain active business development of niche type loans and continuing improvement in the quality of loan assets:

(ⅰ) Increase the proportion of SME loans to support local industries. In addition, the Bank will continue to develop commercial loan business in support of the municipal policies of City Government of Kaohsiung.

(ⅱ) Cautious selection of mortgages and construction loans clients and increase the relevant fee income.

(ⅲ) Expand the asset base of loans in foreign currencies to increase profit margin.

Ⅱ. Deposits－Reduce the cost of fund in local and foreign currencies:

(ⅰ) Launch internal business campaign to encourage all business units to increase the size of current deposits.

(ⅱ) Adjust jumbo-size time deposits based on the growth of regular time deposits.

Ⅲ. Non-interest income－Increase the proportion of fee income in consolidated revenue:

(ⅰ) Commission incomes generated from sales of investment and insurance products will be key drivers.

(ⅱ) Stay progressive in the market with the introduction of new mutual-fund and insurance products.

(ⅲ) Moderate investment in stocks for a steady stream of dividend income and capital gains.

Ⅳ. International Banking－Keep abreast of international banking development to increase the proportion of income from internal banking and financial operation:

(ⅰ) Augment the investment in securities denominated in foreign currencies via the OBU with consideration of asset security, liquidity and return to improve the income of financial operation.

(ⅱ) Strict control the credit exposure in Mainland China properly and secure good quality loans with adding the interest margins.

(ⅲ) Uphold the principle of international syndicated loan selection and focus on borrowers and industries with stable and positive outlooks.

Ⅴ. Digital Banking－Development of mobile and customized services:

(ⅰ) Continue to improve the online banking services and develop marketing strategies based on Big-Data analysis.

(ⅱ) Improve the functions of mobile banking services and fortify data and security risk control.

(ⅲ) Promote electronic banking systems to reduce the cost of over-the-counter banking services.

(ⅳ) Upgrade mobile payment services based on user experience.

Ⅵ. Legal Compliance and AML－Establishment of Compliance Department for regarding matters:

(ⅰ) Map out action plans for legal compliance as well as AML/CFT plans with risk-based methodology.

(ⅱ) Establishment of Compliance Department responsible for monitoring operations risks triggered by changes in banking regulations and AML/CFT-related matters.

Ⅶ. Internal Control－Balance between risk control and operation efficiency:

(ⅰ) Establishment and implementation of additional auditing programs fortify to prevent operation frauds.

(ⅱ) Intensive instructions and supervision conducted by business unit managers to minimize operation risk.

(ⅲ) Consistent review of auditing programs to balance risk management and operating efficiency.

1.2.2 Expected Business Objective

Ⅰ. Average Deposits Balances：NT$ 232.20 billion.

Ⅱ. Average Loans Balances：NT$ 177.00 billion.

Ⅲ. Foreign Exchange Sales：US$ 5.60 billion.

Ⅳ. Commission and Service Fees：NT$ 0.552 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 advent of the rapid development of global information and communication technology and the use of big data, the conventional mode of banking operation and business thinking also changed quickly. The competition in the industry and the trend of digital development as a decisive force for winning, the Bank make appropriate adjustment in its deployment so as to meet the needs of the development of the virtual and physical channels. The Bank will continue to improve its IT system with organizational adjustment for fortifying the development and marketing of digital products.

1.4.2 Regulatory environment

In responding to the policy and legal requirements in AML/CFT and avoiding the laundering of illegal money into legitimate money via the banking system, and the amendment of the competent authority to the "Directions Governing Anti-Money Laundering and Countering Terrorism Financing of Banking Sector", the Bank will continue to monitor the risk inherent to the change in the legal environment. In addition, the Bank has outsourced external services for the analysis of related issues in order to reinforce AML/CFT-related operations and accomplish compliance.

For the proper pursuit of the policy of two days off in each work week for the employees, the competent authority amended the Labor Standard Act, thereby the rights of the employees in taking annual leave and overtime duties have been fortified and the standard for filing related appeals has also been stated explicitly. In response, the Bank revised its "Particulars for Duty Management of Staff", "Particulars for Overtime Payment of Staff", and "Particulars of Staff for Taking Leave" to protect the rights of the employees.

1.4.3 Macroeconomic environment

The wave of the Bank 3.0 and Fintech and the emergence of third party payment in the Internet drive the digitization development of the banking industry. Over the years, major financial holding groups have exerted high pressure on small and medium size domestic banks, insurance companies, and securities firms by their broad product lines, large customer base and low cost of fund. After a series of financial reforms, the government will continue to launch the integration of financial institutions.

In the era of "Bigger ones are getting bigger and the effort of the government in financial integration", the territory of the domestic banking industry will continue to change. The result will be sustained pressure on the small and medium banks in competition. The Bank will make further effort in the application and innovation of mobile payment and assist the staff to make transformation with the intensification of training professionals in digital banking.

The Bank will continue its corporate philosophy of conservatism in operation with further cultivation of the market in Taiwan and expansion into international banking. These will help to improve the profitability of the Bank and provide innovative and diversified banking and financial services to the customers. The rights and privileges of the customers, shareholders, and employees will be the purpose. The Bank will live up to the philosophy of "diversified strategic deployment, differentiated community marketing, fortified integrated marketing, reinforced control of compliance, creation of a viable HR system, and continued optimization of the IT system" so as to emerge as a decent bank .

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

Fitch Australia Pty Ltd. Taiwan Branch announced that the Bank's long-term credit rating was "AA-(twn)", and short-term credit rating "F1+(twn)". The outlook was rated as "stable" on March 9, 2017.

Chairman

Chien, Chen-Cheng

President

Huang Maan-sheng

Directors Team of BOK

Chairman

Chen-Cheng Chien

Independent Director and Managing Director

Wen-Yuan Lin

Managing Director

Li-Ming Hsu

Independent Director

Mei-Yueh Ho

Independent Director

Tzen-Ping Su

Director

Richard Lee

Director

Chien-Tsai Chao

Director

Jueifang P. Chen

Director

Tsung-Kun Lee

Director

Chung-Hsin Liu

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 35 years and the privatization, the total paid-in capital has amounted to NTD10,032,238,250 to Mar. 2017. In the past 35 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.

2.3 The status of the following operation in 2016 to the end of March 2017:

2.3.1 Mergers and Acquisition of Banks, direct investment in affiliates and reorganization: None.

2.3.2 Under the category of special financial holding companies: the Company does not fall into the category of special financial holding companies.

2.3.3 Where the directors and others are required to declare their equity holding pursuant to Article 25-3 of the Banking Act, their transactions or switching of shares in massive volume: None.

2.3.4 The effect of the change in the management, mode of operation, or significant change in the content of business on shareholders’ equity: None.

Under the leadership of board of directors and chairman of the board, chief operating team.

President
Moan-Sheng Huang

Exec. Vice President
Johnson Huang

Exec. Vice President
Jin-Ann Wang

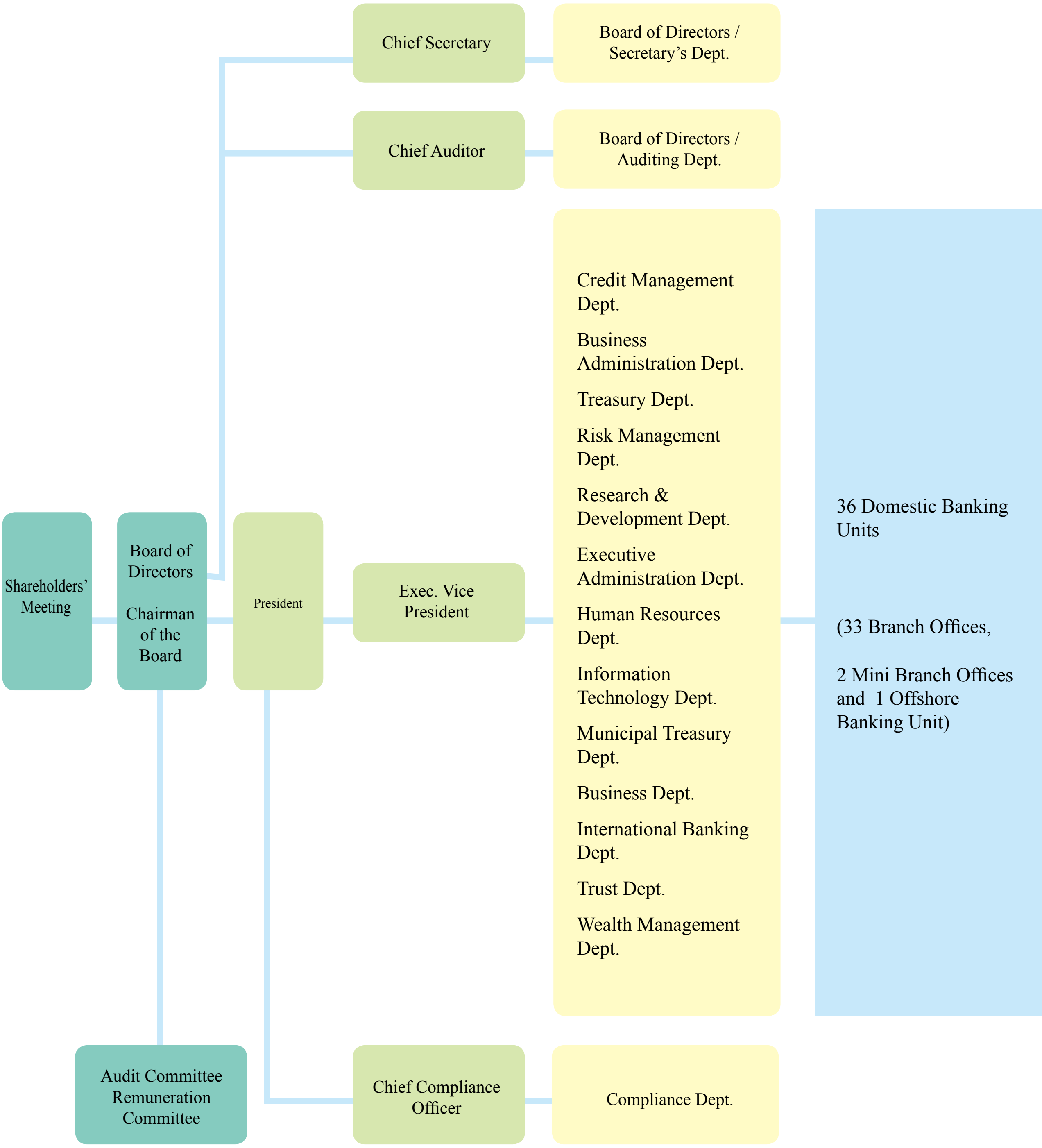
Chief Auditor
Chung-Chen Lin

Counsel and Chief Secretary
Tsui-Mei Hsu

Chief Compliance Officer
Te-Chin Chou

3.1 Organization

3.1.1 Organization Chart



3.1.2 Major Corporate Functions

I. Credit Management Dept. :

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

II. 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.

III. 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.

IV. Risk Management Dept. :

Planning and supervision of the Bank's risk control.

V. 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.

VI. Compliance Dept. :

The planning, management, execution, review, oversight, and training of compliance affairs; administrative affairs in legal fields, such as the review of contracts and documents, legal consultation, provision of legal opinion, and litigation processing. The Design and Enforcement of Anti-Money Laundering and Counting Terrorism Financing.

VII. 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.

VIII. 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.

IX. Information Technology Dept. :

Planning, design and operating management of automatization.

X. Municipal Treasury Dept. :

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

XI. Business Dept. :

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

XII. International Banking Dept. :

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

XIII. Trust Dept. :

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

XIV. 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 and Management Team

3.2.1 Directors

Ⅰ. Information on Directors.

Apr. 23, 2017

Title	Nationality or registered	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding When Elected		Current Shareholding		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	%	Shares	%	Shares	%			Title	Name	Relation
Acting Chairman	R.O.C.	Chen-Cheng Chien (Representative of Kaohsiung City Government)	Male	2016.10.21	2017.06.18	2014.06.19	325,855,912	45.19	432,657,702	43.13	0	0	0	0	Deputy Director General Finance Bureau, Kaohsiung City Government Master of Public Administration, Donghai University	Director General Finance Bureau Kaohsiung City Government; Supervisor, Kaohsiung Rapid Transit Corporation; Director, Waterland Securities Co., Ltd., Taiwan Finance Corporation Co., Ltd.	None	None	None
Independent Director and Managing Director	R.O.C.	Wen-Yuan Lin	Male	2014.06.19	2017.06.18	2008.06.19	0	0	0	0	0	0	0	0	Chairman, China Steel Corporation Chairman, Taiwan Styrene Monomer Co. Master of Civil Engineering, University of Hawaii, USA	Chairman, Eastern Intergrated Marketing Inc., Plus Media Co., Ltd. ; Independent Director, Taroko Textile Corp., Chun Yu Works & Co., Ltd. ; Director, Taiwan Styrene Monomer Co., Right Way Industrial Co., Ltd., Utech Solar Corp., NSouth Kosan Co., Ltd.,	None	None	None
Managing Director	R.O.C.	Li - Ming Hsu (Representative of Kaohsiung City Government)	Male	2014.06.19	2017.06.18	2009.06.18	325,855,912	45.19	432,657,702	43.13	0	0	0	0	Director-general of Information Department, Director, Research,Development and Evaluation Commission, Kaohsiung City Government College of Law, National Chengchi University (NCCU)	Deputy Mayor, Kaohsiung City Government	None	None	None
Independent Director	R.O.C.	Mei-Yueh Ho	Female	2014.06.19	2017.06.18	2008.06.19	0	0	0	0	0	0	0	0	The Administrative Committee of the Executive Yuan and Council for Economic Planning And Development Bachelor of Agricultural Chemistry, National Taiwan University	Independent Director, KINPO Electronics Inc., AU Optronics Corp., Advanced Semiconductor Engineering Inc.	None	None	None
Independent Director	R.O.C.	Tzen-Ping Su	Male	2014.06.19	2017.06.18	2011.06.16	0	0	0	0	0	0	0	0	Chairman, Central News Agency, CNA Master of National Economics, University of Frankfurt, Germany	Director, Mainfarm trading Co., Chia Tai Enterprise Co. LTD.	None	None	None
Director	R.O.C.	Richard Lee (Representative of Kaohsiung City Government)	Male	2014.06.19	2017.06.18	2011.06.16	325,855,912	45.19	432,657,702	43.13	0	0	0	0	Arbitrator, The Arbitration Association of The Republic of China Master of Mainland China Studies National Sun Yat-sen University	Chairman, Chu Long Bao Industry Co. Ltd. ; Partner Attorney, Yuan Chen Law Office ; Supervisor, Taiwan Styrene Monomer Co., Senao International Co. Ltd., ; Independent Director, Taiwan Tea Corp.	None	None	None
Director	R.O.C.	Chien-Tsai Chao (Representative of Kaohsiung City Government)	Male	2014.06.19	2017.06.18	2009.06.18	325,855,912	45.19	432,657,702	43.13	0	0	0	0	President, Tang Eng Iron Works co. Ltd., Chyang Dah Stainless co., Ltd. Bachelor of Mechanical Engineering, National Kaohsiung University of Applied Sciences	Chairman, Tang Eng Iron Works Co. Ltd., Teng Wang Enterprise; Director, Taiwan Rolling Stock Co. Ltd.	None	None	None
Director	R.O.C.	Jueifang P. Chen (Representative of Kaohsiung City Government)	Male	2014.06.19	2017.06.18	2005.03.15	325,855,912	45.19	432,657,702	43.13	0	0	0	0	Executive director, Bank of Kaohsiung Corporate Union MBA, Northern Arizona University	Assistant Vice President & Assistant General Manager, Trsut Dept., Bank of Kaohsiung	None	None	None
Director	R.O.C.	Tsung-kun Lee (Representative of Bank of Kaohsiung Corporate Union)	Male	2014.06.19	2017.06.18	2014.06.19	815,099	0.11	973,726	0.10	0	0	0	0	Executive director, Bank of Kaohsiung Corporate Union Lunghwa Junior College of Technology	Executive director, Bank of Kaohsiung Corporate Union; Staff Officer, Research & Development Dept., Bank of Kaohsiung	None	None	None
Director	R.O.C.	Chung-Hsin Liu (Representative of Jinn Her Enterprise Co., Ltd.)	Male	2014.06.19	2017.06.18	2014.06.16	29,361,446	4.07	92,170,604	9.19	0	0	0	0	Deputy Director General Finance Bureau, Kaohsiung City Government Bank Insurance Section, International Business College	—	None	None	None

Note：1. The names of juridical person shareholders, please refer to next page “Major Shareholders of the institutional.”

2. Acting Chairman Chen-Cheng Chien was appointed to be Director by the juridical person shareholder, Kaohsiung City Government, on Jun.19, 2014~Dec.16, 2015, as Managing Director on Dec.17, 2015, and elected as Acting Chairman on Oct. 21, 2016.

3. Above “Other Position” data is base on Apr. 6, 2017.

Ⅱ. Major shareholders of the institutional shareholders.

Name of institutional shareholders	Major shareholders of theinstitutional shareholders
Kaohsiung City Government	Belong to government agencies.
Bank of Kaohsiung Corporate Union	Belong to corporation aggregate.
Jinn Her Enterprise Co., Ltd.	Yong-Yu Tsai (21.56%), Yong-Quan Tsai (20.65%), His-Hui Chen (18.62%), Hsiung-Tien Tsai (12.27%), Jung-Tai Tsai (10.04%), Sung-Han Tsai (9.88%), Xiu-Xiang Chang Tsai (6.31%), Jia Ling Tsai (0.55%), Yi Song Chen (0.12%)

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

Ⅲ. Professional qualifications and independence analysis of directors.

Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the business Needs of the Bank in a public or private Junior college, College or university	A Judge, Public Prosecutor, Attorney, CPA, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Bank	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Bank	1	2	3	4	5	6	7	8	9	10	
Chen-Cheng Chien		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Wen-Yuan Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Li- Ming Hsu			✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Mei-Yueh Ho			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Tzen-Ping Su			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Richard Lee		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		1
Chien-Tsai Chao			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Jueifang P. Chen			✓		✓	✓	✓	✓	✓	✓	✓	✓		0
Tsung-kun Lee			✓		✓	✓	✓	✓	✓	✓	✓	✓		0
Chung-Hsin Liu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0

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 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 therof. 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

Mar. 31, 2017

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	R.O.C.	Moan-Sheng Huang	Male	2013.01.09	44,805	0.0045	0	0	0	0	General Manager and Chief, Landbank Bachelor of Business Administration, Soochow University	None	None	None	None
Exec. Vice President	R.O.C.	Jin-Ann Wang	Male	2014.02.27	135,000	0.0135	0	0	0	0	Senior Vice President and General Manager, Bank of Kaohsiung Bachelor of International Trade, Chinese Cultural University	Director, Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
Exec. Vice President and Senior Vice President, Risk Management Dept., and Research & Development Dept.	R.O.C.	Johnson Huang	Male	2014.02.27	61,335	0.0061	0	0	0	0	Senior Vice President, Bank of Kaohsiung Bachelor of Money and Banking, National Chengchi University	Director, Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
Chief Auditor	R.O.C.	Chung-Chen Lin	Female	2011.01.18	63,002	0.0063	0	0	0	0	Chief Auditor, Bank of Kaohsiung Master of Business Economics, National Kaohsiung University of Applied Sciences	None	None	None	None
Counsel and Chief Secretary	R.O.C.	Tsui-Mei Hsu	Female	2014.02.27	129,916	0.0129	0	0	0	0	Chief Secretary, Bank of Kaohhsiung EMBA, National Sun Yat-sen University	Chairman , Kaohsiung Bank Insurance Agency Co.,Ltd. and Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
Chief Compliance Officer and Senior Vice President, Compliance Dept.	R.O.C.	Te-Chin Chou	Female	2015.01.27	59,766	0.0060	0	0	0	0	Senior Vice President, Bank of Kaohsiung Bachelor of Law,National Chung Hsing University	Supervisor, Kaohsiung Bank Insurance Agency Co.,Ltd. and Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
Senior Vice President, Business Administration Dept.	R.O.C.	Anna Hsu	Female	2012.07.01	48,552	0.0048	0	0	0	0	Senior Vice President and General Manager, Bank of Kaohsiung EMBA, National Sun Yat-sen University	None	None	None	None
Senior Vice President, Credit Management Dept.	R.O.C.	Ting-Lien Lin	Male	2012.07.01	88,494	0.0088	0	0	0	0	Senior Vice President and General Manager, Bank of Kaohsiung Bachelor of Finance, National Sun Yat-sen University	Supervisor, Kaohsiung Bank Insurance Agency Co., Ltd. and Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
Senior Vice President, Human Resources Dept., and Executive Administration Dept.	R.O.C.	Shiu-Hui Liu	Female	2015.03.02	57,593	0.0057	0	0	0	0	General Manager, Bank of Kaohsiung Master of Business Economics, National Kaohsiung University of Applied Sciences	None	None	None	None
Senior Vice President, Treasury Dept. and General Manager, OBU Branch	R.O.C.	J.C. Shou-Jen Chen	Male	2008.04.01	186,866	0.0186	0	0	0	0	Senior Vice President and General Manager, Bank of Kaohsiung Master of Business Administration, University of Pittsburgh, USA	None	None	None	None
Senior Vice President, Information Technology Dept.	R.O.C.	I-Fen Chen	Female	2011.02.24	132,206	0.0132	0	0	0	0	Senior Bank of Kaohsiung Bachelor of Money and Banking, Tamkang University	None	None	None	None
General Manager, Municipal Treasury Dept.	R.O.C.	Mei-Ling Chen	Female	2012.07.01	91,038	0.0091	0	0	0	0	Senior Vice President and General Manager, Bank of Kaohsiung Bachelor of Chinese Literature, National Chengchi University	Director, Kaohsiung Bank Insurance Agency Co., Ltd. ; Director and President, Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
General Manager, International Banking Dept.	R.O.C.	Shuen-Hua Chen	Female	2012.09.07	53,752	0.0054	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Money and Banking, Tamkang University	None	None	None	None
General Manager, Trust Dept.	R.O.C.	Ching-Hui Lin	Female	2015.03.02	52,709	0.0053	0	0	0	0	Deputy General Manager,Bank of Kaohsiung Bachelor of Law,Fu Jen Catholic University	None	None	None	None
General Manager, Wealth Management Dept.	R.O.C.	Yuan-Chin Shiang	Female	2013.03.01	111,971	0.0112	0	0	0	0	General Manager, Bank of Kaohsiung EMBA, National Sun Yat-sen University	Director and President, Kaohsiung Bank Insurance Agency Co., Ltd. And Director , Kaohsiung Bank General Insurance Agency Co., Ltd.	None	None	None
General Manager, Business Dept.	R.O.C.	Jung-Tai Chang	Male	2015.03.02	53,603	0.0053	0	0	0	0	General Manager, Bank of Kaohsiung Ph.D. College of Financial and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Gangshan Benjhou Branch	R.O.C.	Ming-Hung Wu	Male	2012.12.17	78,396	0.0078	0	0	0	0	General Manager, Bank of Kaohsiung MBA, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Feng Shan Branch	R.O.C.	Ming-Ta Yang	Male	2017.03.01	48,323	0.0048	0	0	0	0	General Manager, Bank of Kaohsiung Section of Accounting and Statistics, Taichung business school	None	None	None	None
General Manager, Chien Chin Branch	R.O.C.	Shu-Z. Chen	Female	2017.03.01	21,264	0.0021	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Business Administration, Soochow University	None	None	None	None
General Manager, San Min Branch	R.O.C.	Yi-Chen Yu	Female	2014.04.01	49,264	0.0049	0	0	0	0	General Manager, Bank of Kaohsiung Master of Financial and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Tso Ying Branch	R.O.C.	Wen-Jung Huang	Male	2017.03.01	9,608	0.0010	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Master of Financial and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Hsiao Kang Branch	R.O.C.	Hsien-Kuo Chen	Male	2015.05.01	59,292	0.0059	115,670	0.0115	0	0	General Manager, Bank of Kaohsiung Bachelor of Money and Banking, Tamkang University	None	General Manager	Li-Hwa Chen	Spouse
General Manager, Tao Yuan Branch	R.O.C.	Chuan-Pin Kao	Male	2009.10.22	52,601	0.0052	0	0	0	0	General Manager, Bank of Kaohsiung Section of Bank and Insurance, Taipei Business School	None	None	None	None
General Manager, Chien Chen Branch	R.O.C.	Yen-Ching Hsien	Female	2014.04.01	71,948	0.0072	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Bank and Insurance, Feng Chia University	None	None	None	None

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degree of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
General Manager, Yu Chang Branch	R.O.C.	Hueng-Fen Yen	Female	2014.04.01	47,275	0.0047	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Money and Banking, Tamkang University	Director, Ochi Technology Co., Ltd.	None	None	None
General Manager, Wan Nei Branch	R.O.C.	Shiow-Lien Su	Female	2015.03.02	114,585	0.0114	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Finance and Banking, Shih hien University	None	None	None	None
General Manager, Pin Tung Branch	R.O.C.	Chiu-Lan Hsu	Female	2014.04.01	16,590	0.0017	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Bachelor of International Trade, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Kwei Lin Branch	R.O.C.	Chiu-Chin Huang	Female	2015.03.02	60,676	0.0060	0	0	0	0	General Manager, Bank of Kaohsiung Master of Wealth and Taxation Management, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Liu Ho Branch	R.O.C.	Hsien-Cheng Huang	Male	2015.03.02	166,449	0.0166	70,803	0.0071	0	0	General Manager,Bank of Kaohsiung Master of Money and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Nan Tze Branch	R.O.C.	Wei-Min Wu	Male	2011.10.26	55,636	0.0055	0	0	0	0	General Manager, Bank of Kaohsiung Master of Financial and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Ku Shan Branch	R.O.C.	Chi-Jen Lin	Male	2016.03.01	62,182	0.0062	0	0	0	0	General Manager, Bank of Kaohsiung Master of Money and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Chien Kuo Branch	R.O.C.	Ying-Mien Hsu	Female	2017.03.01	41,452	0.0041	0	0	0	0	General Manager, Bank of Kaohsiung Master of Financial and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, Chiu Ju Branch	R.O.C.	Trey-Shin Lee	Female	2016.03.01	88,524	0.0088	1,058	0.0001	0	0	General Manager, Bank of Kaohsiung Master of Finance Management, National Sun Yat-sen University	None	None	None	None
General Manager, Yen Cheng Mini Branch	R.O.C.	Mei-Chu Chang	Female	2014.04.01	53,129	0.0053	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Tourism, Ming Chuan University	None	None	None	None
General Manager, Tsao Ya Branch	R.O.C.	Ching-Tsan Chen	Male	2011.10.26	39,486	0.0039	37,022	0.0037	0	0	General Manager, Bank of Kaohsiung Bachelor of Business Administration, Southern Taiwan University of Science and Technology	None	None	None	None
General Manager, Banciao Branch	R.O.C.	Hsien- Chung Liao	Male	2016.11.01	52,268	0.0052	0	0	0	0	General Manager, Bank of Kaohsiung EMBA, National Chiayi University	None	None	None	None
General Manager, Tai Nan Branch	R.O.C.	Tai-Lu Tu	Male	2017.03.01	15,358	0.0015	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Master of Money and Banking, National Kaohsiung First University of Science and Technology	None	None	None	None
General Manager, San To Branch	R.O.C.	Wen-Hau Sher	Male	2014.04.01	57,576	0.0057	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Business Administration, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Da Fa Branch	R.O.C.	Tung-Feng Wu	Male	2017.03.01	49,601	0.0049	0	0	0	0	Deputy General Manager,Bank of Kaohsiung Section of International Trade,Open Junior College	None	None	None	None
General Manager, Ta Chih Branch	R.O.C.	Don Huang	Male	2012.09.07	53,975	0.0054	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of International Trade, National Taiwan University	None	None	None	None
General Manager, Tai Chung Branch	R.O.C.	Hwa-Jen Lee	Male	2016.03.01	61,365	0.0061	0	0	0	0	Senior Vice President and General Manager, Bank of Kaohsiung EMBA, National Cheng Kung University	None	None	None	None
General Manager, Chi Chin Mini Branch	R.O.C.	Wen-Lueh Su	Male	2017.03.01	51,195	0.0051	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Bachelor of Business Administration, Chung Yuan Christian University	None	None	None	None
General Manager, Nan Kaohsiung Branch	R.O.C.	Hsiu-Yen Wu	Female	2017.03.01	19,506	0.0019	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Business Administration, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Dali Branch	R.O.C.	Yu-Huey Tsao	Female	2015.03.02	59,693	0.0060	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Master of Finance, National Sun Yat-sen University	None	None	None	None
General Manager, Hsin Chu Branch	R.O.C.	Jung-Lin Cheng	Male	2016.11.01	10,000	0.0010	0	0	0	0	General Manager, Standard Chartered Bank Bachelor of International Trade, Fu Jen Catholic University	None	None	None	None
General Manager, Shih Fu Branch	R.O.C.	Pi-Jung Ko	Female	2015.03.02	58,039	0.0058	0	0	0	0	General Manager, Bank of Kaohsiung Section of Administrative,Open Junior College	None	None	None	None
General Manager, Chung Ho Branch	R.O.C.	Chuck Chen	Male	2012.09.07	58,166	0.0058	0	0	0	0	General Manager, Bank of Kaohsiung Master of Financial and Banking, National Taiwan University	None	None	None	None
General Manager, Taipei Branch	R.O.C.	Wen-Lung Ting	Male	2012.09.07	60,249	0.0060	0	0	0	0	General Manager, Bank of Kaohsiung Bachelor of Economics, Chinese Culture University	None	None	None	None
General Manager, Min Cheng Branch	R.O.C.	Li-Hwa Chen	Female	2012.04.03	115,670	0.0115	59,292	0.0059	0	0	General Manager, Bank of Kaohsiung Section of International Trade,Open Junior College	None	General Manager	Hsien-Kuo Chen	Spouse
General Manager, Pei Kaohsiung Branch	R.O.C.	Chia-Hung Chen	Male	2017.03.01	21,855	0.0022	23,837	0.0024	0	0	General Manager, Bank of Kaohsiung Bachelor of Business Administration, National Kaohsiung University of Applied Sciences	None	None	None	None
General Manager, Po Ai Branch	R.O.C.	Hui-Wen Chiu	Female	2016.03.01	33,401	0.0033	0	0	0	0	Deputy General Manager, Bank of Kaohsiung Bachelor of Financial and Banking, Ming Chuan University	None	None	None	None

3.3 Remuneration of Directors, President, and Vice President.

3.3.1 Remunerations of Directors (Independent Directors)

Unit：NT$ Thousand in Jan. 1~dec. 31, 2016

Title	Name	Remuneration								Ratio of total remuneration (A+B+C+D) to net income (%)		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
		Base Compensation (A)		Severance Pay (B)		Bonus to Directors (C)		Business expenses (D)				Salary, Bonuses and Allowances (E)		Severance Pay (F)		Bonus to Employee (G)						
																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	BOK	Companies in the financial statements	BOK	Companies in the financial statements	BOK	Companies in the financial statements	Cash	Stock	Cash	Stock	BOK	Companies in the financial statements	
Acting Chairman	Chen-Cheng Chien (Representative of Kaohsiung City Government)																					
Independent Director and Managing Director	Wen-Yuan Lin																					
Managing Director	Li- Ming Hsu (Representative of Kaohsiung City Government)																					
Independent Director	Mei-Yueh Ho																					
Independent Director	Tzen-Ping Su																					
Director	Richard Lee (Representative of Kaohsiung City Government)																					
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)																					
Director	Jueifang P. Chen (Representative of Kaohsiung City Government)	13,286	Note4	120	Note4	8,875	Note4	810	Note4	3.56%	Note4	3,748	Note4	205	Note4	113	0	Note4	Note4	4.19%	Note4	285
Director	Tsung-kun Lee (Representative of Bank of Kaohsiung Corporate Union)																					
Director	Chung-Hsin Liu (Representative of Jinn Her Enterprise Co., Ltd.)																					
Retiring Chairman	Ruey-Tsang Lee (Representative of Kaohsiung City Government)																					
Retiring Chairman	Toong-Min Chen (Representative of Kaohsiung City Government)																					
	Kaohsiung City Government																					
	Bank of Kaohsiung Corporate Union																					
	Jinn Her Enterprise Co., Ltd.																					

Note：1. The Bank provides included the rental fees of Chairman's Professional practice site, rental fees of business car and expenses of fuel and driver was offered total NT$2,260 thousand.
2. Chairman Toong-Min Chen at 2015.11.20 and Ruey-Tsang Lee at 2016.10.20 retiring chairman took over as chairman from the Chen-Cheng Chien.
3. Severance Pay NT$1,157 thousand was given in 2016.
4. The amount of "Companies in the financial statements" is identical to the amount in the cell for "BOK".

Range of Remunerations

Unit：NT$ Thousand

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	Chen-Cheng Chien, Li- Ming Hsu, Richard Lee, Chien-Tsai Chao, Jueifang P. Chen, Tsung-kun Lee, Chung-Hsin Liu, Bank of Kaohsiung Corporate Union, Jinn Her Enterprise Co., Ltd.	Chen-Cheng Chien, Li- Ming Hsu, Richard Lee, Chien-Tsai Chao, Jueifang P. Chen, Tsung-kun Lee, Chung-Hsin Liu, Bank of Kaohsiung Corporate Union, Jinn Her Enterprise Co., Ltd.	Chen-Cheng Chien, Li- Ming Hsu, Richard Lee, Chien-Tsai Chao, Tsung-kun Lee, Chung-Hsin Liu, Bank of Kaohsiung Corporate Union, Jinn Her Enterprise Co., Ltd.	Chen-Cheng Chien, Li- Ming Hsu, Richard Lee, Chien-Tsai Chao, Tsung-kun Lee, Chung-Hsin Liu, Bank of Kaohsiung Corporate Union, Jinn Her Enterprise Co., Ltd.
2 million(included) ~ 5 million(uncluded)	Ruey-Tsang Lee, Toong-Min Chen, Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su	Ruey-Tsang Lee, Toong-Min Chen, Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su	Ruey-Tsang Lee, Toong-Min Chen, Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su, Jueifang P. Chen	Ruey-Tsang Lee, Toong-Min Chen, Wen-Yuan Lin, Mei-Yueh Ho, Tzen-Ping Su, Jueifang P. Chen
5 million(included) ~ 10 million(uncluded)	Kaohsiung City Government	Kaohsiung City Government	Kaohsiung City Government	Kaohsiung City Government
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	23,091	23,091	27,158	27,158

<table>
<tr><th rowspan="2">Item
FY</th><th colspan="2">Ratio of Remunerations of Directors to Net Income after Tax (%)</th><th>Remarks</th></tr>
<tr><th>BOK</th><th>Companies in the consolidate financial statements</th><td rowspan="4">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: 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 bonus to directors, 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 the Bank, aside from the Audit Committee exercise of supervision power and reporting the illegal act to the authorities, the Bank shall take necessary punitive action against the director according to applicable laws.
5. The proportion of total remuneration paid to directors in the current year was 4.19% after tax, which was 0.47% lower than that in FY2015. This was due to the increase in surplus in fiscal FY2016 and the decrease in remuneration due to the unpaid salary of the board of directors.</td></tr>
<tr><td>2016</td><td>4.19</td><td>4.19</td></tr>
<tr><td>2015</td><td>4.66</td><td>4.66</td></tr>
<tr><td>Comparison</td><td>(0.47)
(Explanation 5)</td><td>(0.47)
(Explanation 5)</td></tr>
</table>

3.3.2 Compensation of President and Vice President

Unit：NT$ Thousand in Jan. 1~Dec. 31, 2016

Title	Name	Salary (A)		Severance Pay (B)		Bonuses and Allowances (C)		Bonus of Employee (D)				Ratio of total compensation (A+B+C+D) to net income (%)		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	BOK		Companies in the financial statements		BOK	Companies in the financial statements	
								Cash	Stock	Cash	Stock			
President	Moan-Sheng Huang	11,635	Note2	734	Note2	5,314	Note2	379	0	Note2	Note2	2.79%	Note2	None
Exec.Vice President	Jin-Ann Wang													
Exec. Vice President	Johnson Huang													
Chief Auditor	Chung-Chen Lin													
Chief Compliance Officer	Te-Chin Chou													

Note：1. The Bank provides included the rental fees of President's Professional practice site, rental fees of business car and expenses of fuel and driver was offered total NT$1,657 thousand.
2. The amount of "Companies in the financial statements" is identical to the amount in the cell for "BOK".

Range of Remunerations

Unit：NT$ Thousand in Jan. 1~Dec. 31, 2016

Range of Remunerations	Name of President and Vice Presidents	
	BOK	All investees (E)
under 2 million	—	—
2 million(included) ~ 5 million(uncluded)	Moan-Sheng Huang , Jin-Ann Wang, Johnson Huang, Chung-Chen Lin, Te-Chin Chou	Moan-Sheng Huang ,Jin-Ann Wang, Johnson Huang, Chung-Chen Lin, Te-Chin Chou
5 million(included) ~ 10 million(uncluded)	—	—
10 million(included) ~ 15 million(uncluded)	—	—
15 million(included) ~ 30 million(uncluded)	—	—
30 million(included) ~ 50 million(uncluded)	—	—
50 million(included) ~ 100 million(uncluded)	—	—
over 100 million	—	—
Total	18,062	18,062

<table>
<tr><th rowspan="2">Item
FY</th><th colspan="2">Ratio of Remunerations of President & Exec. Vice President to Net Income after Tex (%)</th><th>Remarks</th></tr>
<tr><th>BOK</th><th>Companies in the consolidate financial statements</th><td rowspan="4">1. The Bank's policies for payment of remuneration: The Bank's President is responsible for handling the Bank's general affairs pursuant to the orders of the Chairman and subject to the resolutions of the Board of Directors. The Vice President is responsible for assisting the President in handling the Bank's general affairs. The payment of their remuneration shall be subject to the resolutions of the Bank's Compensation Committee and Board or Directors.
2. The Bank's standard and portfolio for payment of remuneration:
(1) Salary: The standard for monthly payment of salary to the President shall be subject to the resolutions of the Bank's Compensation Committee and Board or Directors. The monthly payment of salary to the Vice President, Auditor General, and Head Office's Chief Compliance Officer shall be subject to the Bank's "Directions Governing Employee's Position Ranking & Grading and Salary Payment" and "Table of Payment for Supervisory Differential Pay."
(2) Bonus: It is conducted in accordance with the "Implementation Guidelines Governing the Business Bonus Approving and Issuing."
(3) Employees' Compensation: It is conducted in accordance with "Rules Governing the Distribution of Employees' Compensation."
3. The procedure for the Bank to decide on remuneration: It will be implemented upon approval of the Bank's Compensation Committee and Board or Directors.
4. The correlation between the Bank's payment of remuneration/business performance and future risks: There is a correlation between the bonus and employees' compensation of the President, Vice President, Auditor General, and Head Office's Chief Compliance Officer and the Bank's business performance. In cases where the President, Vice President, Auditor General, and Head Office's Chief Compliance Officer are involved in illegal activities resulting in losses to the Bank, the Board of Directors shall, by resolution, discharge them from their positions and terminate the distribution of remuneration, and take necessary measures in accordance with relevant laws and regulations.
5. The total remuneration to the President and Vice President accounting for net income after tax this year was 2.79%, Increased by 0.10% compared to 2015, which was due to the increase in the bonuses and allowances 2016 compared to 2015.</td></tr>
<tr><td>2016</td><td>2.79</td><td>2.79</td></tr>
<tr><td>2015</td><td>2.78</td><td>2.78</td></tr>
<tr><td>Comparison</td><td>0.01
(Explanation 5)</td><td>0.01
(Explanation 5)</td></tr>
</table>

3.3.3 Employees' bonuses to Managers

Unit：NT$ Thousand in Dec. 31, 2016

Title		Name	Bonus －in Stock	Bonus －in Cash	Total	Ratio of Total Amount to Net Income (%)
Executive Officers	President	Moan-Sheng Huang	0	3,249	3,249	0.50
	Exec. Vice President	Jin-Ann Wang				
	Exec. Vice President and Senior Vice President, Risk Management Dept., and Research & Development Dept.	Johnson Huang				
	Chief Auditor	Chung-Chen Lin				
	Counsel and Chief Secretary	Tsui-Mei Hsu				
	Chief Compliance Officer and Senior Vice President, Compliance Dept.	Te-Chin Chou				
	Senior Vice President, Business Administration Dept.	Anna Hsu				
	Senior Vice President, Credit Management Dept.	Ting-Lien Lin				
	Senior Vice President, Human Resources Dept., and Executive Administration Dept.	Shiu-Hui Liu				
	Senior Vice President, Treasury Dept. and General Manager, OBU Branch	J.C. Shou-Jen Chen				
	Senior Vice President, Information Technology Dept.	I-Fen Chen				
	General Manager, Municipal Treasury Dept.	Mei-Ling Chen				
	General Manager, International Banking Dept.	Shuen-Hua Chen				
	General Manager, Trust Dept.	Ching-Hui Lin				
	General Manager, Wealth Management Dept.	Yuan-Chin Shiang				
	General Manager, Business Dept.	Jung-Tai Chang				
	General Manager, Gangshan Benjhou Branch	Ming-Hung Wu				
	General Manager, Feng Shan Branch	Tung-Chiang Sung				
	General Manager, Chien Chin Branch	Ying-Mien Hsu				
	General Manager, San Min Branch	Yi-Chen Yu				
	General Manager, Tso Ying Branch	Shu-Z. Chen				
	General Manager, Hsiao Kang Branch	Hsien-Kuo Chen				
	General Manager, Tao Yuan Branch	Chuan-Pin Kao				
	General Manager, Chien Chen Branch	Yen-Ching Hsien				
	General Manager, Yu Chang Branch	Hueng-Fen Yen				
	General Manager, Wan Nei Branch	Shiow-Lien Su				
	General Manager, Pin Tung Branch	Chiu-Lan Hsu				
	General Manager, Kwei Lin Branch	Chiu-Chin Huang				
	General Manager, Liu Ho Branch	Hsien-Cheng Huang				
	General Manager, Nan Tze Branch	Wei-Min Wu				
	General Manager, Ku Shan Branch	Chi-Jen Lin				
	General Manager, Chien Kuo Branch	Tzu-Dan Yen				
	General Manager, Chiu Ju Branch	Trey-Shin Lee				
	General Manager, Yen Cheng Mini Branch	Mei-Chu Chang				
	General Manager, Tsao Ya Branch	Ching-Tsan Chen				
	General Manager, Banciao Branch	Hsien- Chung Liao				
	General Manager, Tai Nan Branch	Wen-Lueh Su				
	General Manager, San To Branch	Wen-Hau Sher				
	General Manager, Da Fa Branch	Chia-Hung Chen				
	General Manager, Ta Chih Branch	Don Huang				
	General Manager, Tai Chung Branch	Hwa-Jen Lee				
	General Manager, Chi Chin Mini Branch	Yao-Huan Lin				
	General Manager, Nan Kaohsiung Branch	Shih-Hung Huang				
	General Manager, Dali Branch	Yu-Huey Tsao				
	General Manager, Hsin Chu Branch	Jung-Lin Cheng				
	General Manager, Shih Fu Branch	Pi-Jung Ko				
	General Manager, Chung Ho Branch	Chuck Chen				
	General Manager, Taipei Branch	Wen-Lung Ting				
	General Manager, Min Cheng Branch	Li-Hwa Chen				
	General Manager, Pei Kaohsiung Branch	Ming-Ta Yang				
	General Manager, Po Ai Branch	Wei-Lin Hsu				

Note: Employees' bouns amount listed, the Department of the FY 2016 by the board of managers of the proposed allotment of employee compensation amount.

3.4 Implementation of Corporate Governance

3.4.1 Board of Directors

A total of 8 meetings of the board of directors were held in FY 2016. Director attendance was as follows：

Title	Name	Attendance in Person	By proxy	Attendance ratio (%)	Remarks
Acting Chairman	Chen-Cheng Chien (Representative of Kaohsiung City Government)	8	0	100	2016.10.21 original Managing Director appointed as Acting Chairman
Independent Director and Managing Director	Wen-Yuan Lin	8	0	100	
Managing Director	Li- Ming Hsu (Representative of Kaohsiung City Government)	4	3	50	
Independent Director	Mei-Yueh Ho	8	0	100	
Independent Director	Tzen-Ping Su	8	0	100	
Director	Richard Lee (Representative of Kaohsiung City Government)	7	0	87.5	
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)	7	1	87.5	
Director	Jueifang P. Chen (Representative of Kaohsiung City Government)	8	0	100	
Director	Tsung-kun Lee (Representative of Bank of Kaohsiung Corporate Union)	8	0	100	
Director	Chung-Hsin Liu (Representative of Jinn Her Enterprise Co., Ltd.)	8	0	100	
Retiring Chairman	Ruey-Tsang Lee (Representative of Kaohsiung City Government)	6	0	100	2016.10.20 retiring, should Attendance 6 times

Other Mandatory Provisions:

1. If any of the following is applicable to the operation of the Board:
   (1) Anything inscribed in Article 14-3 of the Securities and Exchange Act: None.
   (2) In addition to the aforementioned issues, other issues related to the resolution of the Board which are expressed objections or reservations by the Independent Directors on record or in written declarations: None.
2. The acions of directors in preventing a "conflict of interest":
   (1) 14th board of directors' meeting of 12th term (2016.3.17)
   Discussed the removal of limit on business strife limitation on Chairman Ruey-Tsang Lee. Related party Chairman Ruey-Tsang Lee avoided participation in the discussion.
   (2) 15th board of directors' meeting of 12th term (2016.5.12)
   Discussed the continued appointment of Mr. Chuan-Sheng Hsu and Mr. Ying-Pin Lin as the legal representatives of the institutional shareholder in the 7th Board to the investee "Kaohsiung Rapid Transit Corporation" for the Company. Related Party Legal Representative of the Kaohsiung City Government, Director Ruey-Tsang Lee; Managing Director Chen-Cheng Chien; Director Richard Lee; Director Chien Tsai Chao; and Director Jueifang P. Chen avoided participation in the discussion.
   (3) 17th board of directors' meeting of 12th term (2016.8.18)
   Discussed the loan bidding of Kaohsiung City government, investment, and affiliated units of 2017. Related Party Legal Representative of Kaohsiung City Government, Director Ruey-Tsang Lee; Managing Director Li- Ming Hsu; Managing Director Chen-Cheng Chien; Director Richard Lee; Director Chien Tsai Chao and Director Jueifang P. Chen avoided participation in the discussion.
   (4) 18th board of directors' meeting of 12th term (2016.10.13)
   A. Appointment of Ms Tzu-Wen Tseng as the legal representative of the institutional shareholder in the 7th Board to the investee "Kaohsiung Rapid Transit Corporation" for the company to fill the vacancy left behind by former Director Mr. Chuan-Sheng Hsu at his resignation for completing the remaining term of office. Related Party Legal Representative of Kaohsiung City Government, Director Ruey-Tsang Lee; Managing Director Li- Ming Hsu; Managing Director Chen-Cheng Chien; Director Chien Tsai Chao; and Director Jueifang P. Chen avoided participation in the discussion.
   B. Discussed the proposal of leasing the city-owned properties for business operation from the interested party Kaohsiung City Government. Related Party Legal Representative of Kaohsiung City Government, Director Ruey-Tsang Lee; Managing Director Li- Ming Hsu; Managing Director Chen-Cheng Chien; Director Chien Tsai Chao and Director Jueifang P. Chen avoided participation in the discussion.
2. Progress assessment of the 2016 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.

3.4.2 Audit Committee operating scenario

The 12th annual meeting of the Audit Committee 5th 2016, the Audit Committee attended the scenario as follows:

Title	Name	Attendance in Person	By proxy	Attendance ratio (%)	Remarks
Audit Committee	Mei-Yueh Ho	5	0	100	
Audit Committee	Wen-Yuan Lin	5	0	100	
Audit Committee	Tzen-Ping Su	5	0	100	
Other Mandatory Provisions: 1. If any of the following is applicable to the operation of the Audit Committee : (1) Anything inscribed in Article 14-3 of the Securities and Exchange Act: None. (2) Resolutions not approved by the audit committee but were approved by more than two thirds of all Audit Committee: None. 2. The effort of audit committee in preventing a "conflict of interest": None. 3. The communication between independent directors and internal audit supervisors and CPAs who serve as external auditors: (1) Operation reports of internal auditing are periodically submitted to the Audit Committee for discussion, and internal audit supervisors all participate in the meeting. (2) When financial reports are submitted to the Audit Committee, CPAs who serve as external auditors are invited to the meeting and required to respond to the questions made by independent directors.					

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

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

Item	Operation			The Difference from Coporate Governace Best Practice Principles for Banking Industry and Reason
	Yes	No	Summary Description	
A. Equity Structure and Shareholder Rights				
1. Did the bank expressly provide internal operation procedures that process the recommendations from, questions from, and litigations with shareholders and implement these rules according to procedures?	✓		The bank has installed hot lines and e-mail boxes exclusively for shareholders' suggestions and resolutions.	In accordance with the "Guidelines for Bank Corporate Governance" article 19.
2. Is the bank in touch with major shareholders who own actual controlling interests of the bank and the ultimate entity with controlling interest?	✓		The major shareholder of the Bank is Kaohsiung City Government, holding 43.13% of the Bank's shares. Its representative also performs his duty pursuant to the rules governing investment by Kaohsiung City Government in the Bank.	In accordance with the "Guidelines for Bank Corporate Governance" article 20 and 27.
3. Did the bank create and enforce the risk control mechanisms and the firewall between itself and affiliated corporations?	✓		The bank controls its affiliated enterprises in accordance with the guidelines governing the Bank's supervision of subsidiaries.	In accordance with the "Guidelines for Bank Corporate Governance" article 21.
B. Organization and Responsibilities of the Board of Directors				
1. Aside from creating the Remuneration Committee and the Audit Committee as required by law, did the bank create other functional committees voluntarily?		✓	The bank didn't create other functional committees voluntarily.	The bank didn't create other functional committees voluntarily.
2. Did the bank review the independence of the CPAs that perform the audit function on a regular basis?	✓		1. Assessments: The bank engaged Crowe Horwth CPAs as auditor in 2016. 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 that 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.	In accordance with the "Guidelines for Bank Corporate Governance" article 38.

Item	Operation			The Difference from Coporate Governace Best Practice Principles for Banking Industry and Reason
	Yes	No	Summary Description	
C. If the bank is listed on the TWSE or Gre Tai Securities Market, is there a designated full-time (part-time) body or personnel responsible for corporate governance and related matters (including but not limiting to providing information to the Directors and Supervisors related to the performance of assigned duties, issues related to the Board or the Shareholders' Meeting as required by law, company registration and registration for change, preparation of minutes of Board meetings and Shareholders' meetings on record)?	✓		The Secretariat of the Board is the designated body responsible for corporate governance and related matters.	—
D. Did the Communication Channels with the Related Parties (including but not limiting to shareholders, employees, and customers)?	✓		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 and 23.
E. Disclosure of Information				
1. Did establishment of a website where information on financial operations and corporate governance is disclosed?	✓		The bank has established a website (www.bok.com.tw) where information on financial operations and corporate governance of the Bank is disclosed.	In accordance with the "Guidelines for Bank Corporate Governance" article 69.
2. Did the Bank has other methods for information disclosure(such as the installation of website in English language, appointment of designated personnel for the collection and disclosure of the Bank, proper implementation of the system of spokesman, loading the video covering the entire process of institutional investors conference to the website)?	✓		Users can click and log in to the English website of the Bank through the URL listed above. The Bank has appointed a spokesperson. The spokesperson is Hsu Tsui-Mei, who also serves as a consultant and chief secretary. The Bank has also designated a unit dedicated to serving as a point of contact for the Market Observation Post System. Business units in charge of all services perform the gathering and disclosure of information as required.	In accordance with the "Guidelines for Bank Corporate Governance" article 67 and 68.
F. Are There Other Important Information to understand Corporate Governance Practice of the Bank (including but not limiting to the rights of employees, employee concern, investor relation, stakeholders' rights and privileges, the continuing education of the Directors and Supervisors, risk management policy and performance of risk assessment actions of customer policy, taking liability insurance for the Directors and Supervisors of the Bank , donation to political parties, stakeholders, and charity groups) ? 1. With investor related: The major shareholder of the Bank is Kaohsiung City Government, holding 43.13% of the Bank's shares. Its representative also performs his duty pursuant to the rules governing investment by Kaohsiung City Government in the Bank. 2. Employee rights: Please refer to page 51 "5.6.1 IV Fulfillment of Employee Rights". 3. Right of related parties: Please refer to page 21 " IV. Did the communication channels of the Bank and the related parties". 4. Training record of directors in 2016：Please refer to Page 27 Appendix Training record of directors in 2016 ". 5. Execution of risk management policies and risk measuring standards：Please refer to page 161~171 "This Bank's risk management systems". 6. Execution of customers' policies：In order to improve the services provided to customers and communication with customers, we have a toll free hot line, and customer service window setup exclusively for credit, financial derivatives and negotiation mechanisms for consumers' financial debt. 7. Purchase of liability insurance by the Bank for directors and managers：The Bank has purchased "Directors & Officers Liability Insurance" from ShinKong Insurance Co., Ltd. On Jun. 2, 2016. 8. The Bank made a donation to political parties or stakeholders or a group of public welfare: Please refer to Page 49 "Social Responsibility and Moral Behavior of the Bank", In addition, the Bank has never made a donation to political parties or stakeholders.				
F. Specify the status of corrective action taken in accordance with the corporate governance evaluation result disclosed by the Corporate Governance Center of Taiwan Stock Exchange Corporation covering the most recent year. If corrective action has not been accomplished, specify the priority of improvement and measures for this purpose: we have disclosed the corporate governance evaluation result of the Bank on April 8, 2016, and were ranked among top 6%~20% of the group of TWSE-listed companies. Of all the defects detected, dividends to shareholders have not been completely distributed within 30 days after the ex-dividend day mainly because of the simultaneous implementation of ex-right and ex-dividends by the Bank that an attempt has been made to avoid the problem caused to the shareholders to make additional payments for the supplementary insurance premium. As such, corrective action has not been properly accomplished. In addition, government entities have occupied more than 1/3 of the seats of the Directors because Kaohsiung City Government has invested 43.13% of the stake in the Bank. Acting on behalf of and in the name of Kaohsiung City Government, it is difficult to take corrective action.				

3.4.5 Duty and Implementation of the Remuneration Committee

Ⅰ. Members of the Remuneration Committee

Position	Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)								Number of Other Public Companies in Which the Individual is Concurrently Serving as Members of the Remuneration Committee	Remarks
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the business Needs of the Bank in a public or private Junior college, College or university	A Judge, Public prosecutor, attorney, CPA, or Other professional or technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Bank	Have Work Experience in the Areas of Commerce, Law, finance, or accounting, or Otherwise Necessary for the Business of the Bank	1	2	3	4	5	6	7	8		
Independent Director	Tzen-Ping Su			✓	✓	✓	✓	✓	✓	✓	✓	✓	None	
Independent Director	Wen-Yuan Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Mei-Yueh Ho			✓	✓	✓	✓	✓	✓	✓	✓	✓	2	

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

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

Ⅱ. Duties of the Remuneration Committee

(i) Drafting and periodically reviewing the policies, regulations, standards, and structures of performance evaluation and remuneration for directors and managers.

(ii) Periodically evaluating and drafting the remuneration for directors and managers.

Ⅲ. Implementation of the Remuneration Committee

(i) Members of the Remuneration Committee: 3 persons.

(ii) Term: From Jun. 19, 2014 to Jun.18, 2017. A total of 2 meetings (A) of the Remuneration Committee were held in FY 2016, members attendance was as follows:

Title	Name	Attendance in Person (B)	By proxy	Attendance ratio (%) (B/A)	Remarks
Convener	Tzen-Ping Su	2	0	100%	
member	Wen-Yuan Lin	2	0	100%	
member	Mei-Yueh Ho	2	0	100%	

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.

3.4.6 The Bank Performing its Social Responsibility

Item	Operation			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	Yes	No	Summary Description	
A. Implementing and promoting corporate governance				
1. Did the bank codify corporate social responsibility policies or regulations and review their implementation?	✓		The Bank prepares a CSR report annually starting from 2015 to disclose specific measures and the implementation result of corporate social responsibility.	In accordance with the "CSR Best Practice Principles for TWSE/ GTSM Listed Companies" article 7 and 9.
2. Did the bank provide the courses of social responsibility training on a regular basis?	✓		In order to implement corporate ethics and promotional matters, relevant courses are held annually (such as business rules and professional ethics seminars) and directors and employees are sent irregularly to participate in relevant professional courses held by professional training institutions.	In accordance with the "CSR Best Practice Principles for TWSE/ GTSM Listed Companies" article 8.
3. Did the bank create a business unit that is dedicated to promoting corporate social responsibility or a (non-dedicated) business unit that is partially dedicated to this function, and did the Board authorize top management to process this matter and report the outcome to the Board?	✓		The Bank has created a business unit dedicated to promoting CSR. The Executive Administration Dept. is responsible for coordinating and planning matters related to CSR and reporting to the board of directors in regular basis.	In accordance with the "CSR Best Practice Principles for TWSE/ GTSM Listed Companies" article 7 and 9.
4. Did the bank codify a reasonable remuneration policy and integrate the performance review of employees with corporate social responsibility policies, and create clear and effective reward and discipline regulations?	✓		1. The Bank set by managers and other remuneration defined as: (1) Attract outstanding professional elite, expand the depth and breadth of operations, strengthen corporate governance cum enhance corporate image. (2) Just stay positive, to maintain internal harmony, strengthen external competitiveness. (3) Incentive to develop their potential, and actively create surpluses in pursuit of equitable remuneration shareholders. 2. The behavior of the implementation of corporate governance, performance appraisal laid down for employees' annual performance appraisal service points "that follow. 3. The behavior of the implementation of reward and punishment, matters have incentives for employees' employees incentives and disincentives "that specification.	In accordance with the "CSR Best Practice Principles for TWSE/ GTSM Listed Companies" article 9.
B. Develop Sustainable Environment				
1. Did the bank condition devoted to enhancing the effective use of all resources and making use of recycled materials that pose the least impact to the environment?	✓		The Bank is committed to improving the efficiency in energy usage, including: 1. Saving electricity: The Bank uses T5 or LED lighting fixtures that are energy-efficient, sets the air conditioning one or two degrees higher than required, and maintains equipment and cleans filters on a regular basis. After business hours, employees turn off power of office equipment or unplug them. 2. Saving water: The Bank uses human-sensing urinals to adjust the amount of flush. 3. Saving fuel: While dispatching corporate cars, the company arranges car pools by principle. The Bank encourages walking or taking public transportation on business trips. 4. Saving paper: The Bank promotes the use of electronic bills. The Bank uses web-based bulletin boards to make pronouncements. The Bank reduces the amount of photocopies. Internal documents are passed on from one person to another, rather than photocopied. Office papers are double-sided as much as possible. Internal document transmission is done with reusable envelopes and Manila paper bags. 5. After the toner powder in the toner cartridges of photocopiers and the printers is exhausted, The Bank sends the empty toner cartridges back to their vendors and specifies the use of environment-friendly toner powder.	In accordance with the "CSR Best Practice Principles for TWSE/ GTSM Listed Companies" article 12.

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Operation</th><th rowspan="2">Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary Description</th></tr>
<tr><td>2. Did the bank condition established appropriate environment management system according to industry characteristics?</td><td>✓</td><td></td><td>1. The Bank enacted “Management Directions for Wenhua Building of Bank of Kaohsiung” to protect the public safety and environmental hygiene.
2. The Bank is in the finance and banking sector and is not a business entailing high risk in pollution. Accordingly, ISO 14001 is not applicable.</td><td>In accordance with the “CSR Best Practice Principles for TWSE/ GTSM Listed Companies” article 13.</td></tr>
<tr><td>3. Did the bank condition watch 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?</td><td>✓</td><td></td><td>1. Old lighting fixtures shall be replaced by T5 or LED energy-saving lighting fixtures and light tubes.
2. Implementing recycling diligently and shipping waste papers and outdated publications to paper plant for recycling and reusing on a regular basis.
3. Promoting a paperless policy. All businesses and forms are conducted electronically. Annual reduction of A4 paper.
4. The air-conditioner is turned on at 08:30 every day and turned off when getting off the work or at 18:30 at the latest. Old and power consuming air-conditioners are replaced by new energy-saving air conditioners in regular basis.</td><td>In accordance with the “CSR Best Practice Principles for TWSE/ GTSM Listed Companies” article 17.</td></tr>
<tr><td>C. Protection of Social Wellness</td><td></td><td></td><td></td><td></td></tr>
<tr><td>1. Does the bank provide applicable policies and procedures based on labor laws and international human rights conventions?</td><td>✓</td><td></td><td>The Bank has create a business unit that is dedicated to promoting CSR. The Executive Administration Dept. is responsible for coordinating and planning matters related to CSR.</td><td>In accordance with the “CSR Best Practice Principles for TWSE/ GTSM Listed Companies” article 18.</td></tr>
<tr><td>2. Has the bank created mechanisms and channels for employees to complain and process the complaints properly?</td><td>✓</td><td></td><td>The Bank employees and complaints, in addition to setting "Sexual Harassment Prevention and complaint processing elements" proper sexual harassment at the outside, and an electronic communication (complaint) mailbox to accept employee complaints events.</td><td>In accordance with the “CSR Best Practice Principles for TWSE/ GTSM Listed Companies” article 18.</td></tr>
<tr><td>3. Does the bank create a safe and healthy work environment for employees and offer regular safety and health education to employees?</td><td>✓</td><td></td><td>The Bank provides a working environment with employee safety and health in accordance with the “Occupational 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”.</td><td>In accordance with the “CSR Best Practice Principles for TWSE/ GTSM Listed Companies” article 20.</td></tr>
<tr><td>4. Has the bank created a mechanism for regular communication with employees and notify employees of operational changes that could cause significant impact to employees in reasonable ways?</td><td>✓</td><td></td><td>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.</td><td>In accordance with the “CSR Best Practice Principles for TWSE/ GTSM Listed Companies” article 22.</td></tr>
<tr><td>5. Has the bank created effective career competence development training plans for employees?</td><td>✓</td><td></td><td>The Bank on the basis of annual training plan, regular and irregular handling of the line within a year, foreign study and training courses to enrich their own employees can learn and career skills.</td><td>In accordance with the “CSR Best Practice Principles for TWSE/ GTSM Listed Companies” article 21.</td></tr>
<tr><td>6. Has the bank created policies that protect the interest of consumers and complaint procedures in terms of R&D, procurement, operation, and service processes?</td><td>✓</td><td></td><td>1. The Bank annually on the operation of the system of consumer protection and enforcement effectiveness, self-vetting evaluation of the whole bank, and according to the evaluation results to improve the review.
2. 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.</td><td>In accordance with the “CSR Best Practice Principles for TWSE/ GTSM Listed Companies” article 23.</td></tr>
<tr><td>7. Does the bank comply with applicable laws and international standards on the marketing and marking of products and services?</td><td>✓</td><td></td><td>The Bank on the marketing activities of products and services, has developed "in advertising, and sales promotion activities to attract business management approach", documents the business and marketing activities, both through the business should comply with the responsible authority in charge of the law, the head office of Justice the competent regulatory compliance and total body competent to comply with the relevant laws and regulations, Fang was released to use.</td><td>In accordance with the “CSR Best Practice Principles for TWSE/ GTSM Listed Companies” article 24.</td></tr>
</table>

Item	Operation			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	Yes	No	Summary Description	
8. Before the bank conduct business with suppliers, has the bank evaluated whether its suppliers have records of adverse impacts on the environment and society?	✓		The Bank assessment of the commercial activities, qualified suppliers and without adverse records are included in screening considerations.	In accordance with the "CSR Best Practice Principles for TWSE/GTSM Listed Companies" article 26.
9. Does the contract between the bank and its major supplier contain the clause that the bank may terminate or revoke the contract at any time when the supplier is involved in acts that are against corporate social responsibility polices and also cause significant impact to the environment and the society?	✓		1. The Bank to fulfill corporate social responsibility of business attitude, not the cause of the environmental and social impact of the major suppliers to trade. 2. Relevant clauses are stipulated in the contracts, requiring firms to bear the corporate social responsibility collectively, which are not limited to products, environmental safety, professional hygiene, and industry safety, comply with commitments and bear the responsibility of violation.	In accordance with the "CSR Best Practice Principles for TWSE/GTSM Listed Companies" article 26.
D. Reinforce Information Revelation Does the bank disclose information on corporate social responsibility with relevance and reliability on its website or the Market Observation Post System?	✓		Disclose information related to enterprise social responsibility in the annual report.	In accordance with the "CSR Best Practice Principles for TWSE/GTSM Listed Companies" article 28.
E. A Bank that has set forth its own corporate social responsibility (CSR) in accordance to "CSR 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 implemented corporate social responsibility through the implementation of corporate governance, the development of a sustainable environment, the maintenance of social welfare, the enhancement of corporate responsibility disclosure and the implementation of corporate social responsibility practices.				
F. Other important information beneficial for understanding the operation of business' social responsibility: Please refer to page 49 " 5.3 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.				

3.4.7 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
	Yes	No	Summary Description	
A. Codifying ethical corporate management best practice principles and plans 1. Does the bank expressly provide the policies and measures on ethical management in its regulations and documents to external parties, and the commitment on implementing operational policies by the Board and the management?		✓	The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2017.	The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2017.
2. Does the bank provide plans that prevent unethical acts and expressly provide operational procedures, code of conducts, disciplinary actions against infractions, and complaint regulations, in all such plans?	✓		The Bank to implement the principles of integrity management objectives for the business were laid down rules and regulations supporting the management and treatment manuals, and the implementation of the relevant assessment and incentive mechanisms.	In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" article 6.
3. Does the bank take preventive actions against high-risk and unethical business activities defined in Article 7 Paragraph 2 of "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", or other measures against unethical activities in other business fields?	✓		The Bank except for charitable donations or sponsorships and other matters by setting "donation job points" think outside the norms and regulations on the business research mechanism stipulated higher risk of bad faith conduct preventive tool, in order to implement the principles of integrity management.	In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" article 7.
B. Implementing ethical operations 1. Does the bank evaluation the record of ethics of its transaction counterparties and expressly provide ethical conduct clauses in contracts signed with its transaction counterparties?	✓		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.	In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" article 9.

Item	Operation			Deviations from"Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and reasons
	Yes	No	Summary Description	
2. Does the bank have a dedicated (non-dedicated) business unit that promotes ethical business practices and reports to the Board, and does this unit regularly report its operation to the Board regularly?		✓	1. The Bank doesn't have a dedicated (non-dedicated) business unit that promotes ethical business practices, but has followed the principles of integrity management, internal control, regulatory compliance systems and related corporate governance standards, and supervision of the implementation of the case by the management to guard against malpractice occurred. 2. The Bank Audit Office in accordance with regulations for the business checks, and Lack of improvement and implementation of internal control situation Chen regular board of directors to oversee the business operations following the implementation of the principle of integrity.	The Bank doesn't have a dedicated business unit that promotes ethical business practices, but has followed the principles of integrity management supervise business execution.
3. Has the bank drafted policies that prevent conflict of interest, provide proper channels of complaints, and implement them?	✓		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.	In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/ GTSM-Listed Companies" article 19.
4. Has the bank created an effective accounting system and internal control regulations for implementing ethical business practice, and has the internal audit unit performed regular audits, or has the bank outsourced internal audit to CPAs?	✓		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. 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 2016. 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.	In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/ GTSM-Listed Companies" article 20.
5. Does the bank provide internal and external training courses regarding ethical business practices on a regular basis?	✓		The Bank regularly participate in organized study trip outside agency business integrity or corporate social responsibility and other related study or training staff from higher order.	In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" article 22.
C. The operation of the reporting regulations of the bank				
1. Has the bank created substantive reporting and reward regulations, established useful channels of reporting, and appointed exclusive personnel to deal with reported individuals?	✓		The Bank's auditing function, Compliance 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.	In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/ GTSM-Listed Companies" article 23.
2. Has the bank designated standard operation procedures and confidentiality mechanisms for the investigation of reported incidents?		✓	The Bank to implement the principles of integrity management objectives, at present, although the mechanisms are not yet finalized, but the audit unit and all related business management department can accept the report matters, and to fulfill our responsibility of confidentiality.	The Bank hasn't designated standard operation procedures and confidentiality mechanisms for the investigation of reported incidents.
3. Has the bank taken measures that protect the whistleblower from improper treatment?	✓		The Bank audit unit and all related business management department received the report matters are to fulfill the responsibility of confidentiality to protect whistleblowers.	In accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" article 23.
D. Improving information disclosure Does the bank disclose the content of its ethical business practice and the result of its implementation information on its website or the Market Observation Post System?		✓	The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2017.	The Bank has not set forth regulations in Ethical Corporate Management Best Practice before Mar. 2017.
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. 2017.				
F. Other material information helpful to the understanding of the bank's ethical corporate management best practice principles (for example, the revision of said principles codified by the bank.): None.				

3.4.8 Corporate governance guidelines and related bylaws: The Bank stipulated Corporate Governance Guidelines on November 2015. Please visit https://www.bok.com.tw/-113 for relevant contents.

3.4.9 Other material information useful to the understanding of corporate governance and its implementation: Please refer to page 20, 3.4.4 The Differences between the Corporate Governance Practice of the Bank and the "Guidelines for Bank Corporate Governance", F. Did important Information of Corporate Governance Practice of the Bank.

Appendix: Training record of directors in 2016

Period	Title	Name	Training Record		
			Class Name	Hours	Unit in Charge
Q1	Director	Richard Lee	"How to Keep Business Confidentiality and Prevent Corruption Properly so as to Bolster Corporate Governance"	3	Taiwan Corporate Governance Association
Q2	Chairman	Ruey-Tsang Lee	"Advanced Seminar for the Practice of Directors and Supervisors (including Independent Directors and Supervisors) – How Could the Directors and Supervisors Avoid Insider Trading"	3	Securities & Futures Institute
			Speech Giving on "The Changes and Prospect of the Financial System of Taiwan"	2	Taiwan Academy of Banking and Finance(TABF)
	Independent Director	Tzen-Ping Su	Advanced seminar for Practical Work of Directors and Supervisors (including independents): Exploring the remuneration policy to employees and the use of instruments	3	Securities & Futures Institute
	Director	Jueifang P. Chen	2016 Corporate Governance Forum Series – "Insider Trade and Corporate Social Responsibility" Seminar	3	Taiwan Securities Association
	Director	Tsung-kun Lee	The 466st Training Seminar for Trust Supervisory Officers (including OJT)	6	Taiwan Academy of Banking and Finance(TABF)
Q3	Chairman	Ruey-Tsang Lee	Advanced seminar for Practical Work of Directors and Supervisors (including independents): "The Legal Risk of Directors and Supervisors and the Responses to the Risk from the Perspective of Major Corporate Fraud"	3	Securities & Futures Institute
			Seminar on the Trend of Mobile Commerce	3.5	Taiwan Academy of Banking and Finance(TABF)
	Independent Director and Managing Director	Wen-Yuan Lin	Seminar of "Major Amendment to the Auditor's Report" and "IFRS No. 9"	3	Crowe Horwath (TW) CPAs
	Independent Director	Mei-Yueh Ho	Legal Responsibility of Directors and Supervisors in Corporate Merger and Acquisition - Advanced seminar for Practical Work of Directors and Supervisors (including independents)	3	Securities & Futures Institute
			Family Wealth Management and Trust Planning Conference – the Cases of Hong Kong, the UK, and the USA.	6	The Trust Association of the Republic of China (TAROC)
			Analysis of Corporate Financial Information and Decision-Making.- Advanced seminar for Practical Work of Directors and Supervisors (including independents)	3	Securities & Futures Institute
			Seminar of "Major Amendment to the Auditor's Report" and "IFRS No. 9"	3	Crowe Horwath (TW) CPAs
	Independent Director	Tzen-Ping Su	Seminar of "Major Amendment to the Auditor's Report" and "IFRS No. 9"	3	Crowe Horwath (TW) CPAs
Q4	Independent Director	Tzen-Ping Su	The Practice of Risk Management, Internal Control and Information Management	3	Taiwan Corporate Governance Association
	Director	Richard Lee	Advanced seminar for Practical Work of Directors and Supervisors (including independents) "Reading of Corporate Performance Information"	3	Securities & Futures Institute

3.4.10 Implementation Status of the Internal Control System

Ⅰ. Declaration Enforcement of the Internal Control System.

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

Feb. 10, 2017

We, the Undersigned, hereby on behalf of Bank of Kaohsiung Co., Ltd. declared that during the period beginning Jan. 1, 2016 until Dec. 31, 2016, 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 Audit Committees 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 except for 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

Acting Chairman Chien, Chen-Cheng

President Huang Maan-sheng

Chief Auditor Lin Ching-Chen

Chief Compliance Officer Je-Chin Chou

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

Matters Requiring Improvements and Improvement Plan for Bank of Kaohsiung Internal Control System

(Base Date：Dec. 31, 2016)

Matters Requiring Improvements	Improvement Measures	Estimated Time of Improvement Completion
1. The opinion of FSC from its special audit specified that the head office of BOK failed to exercise proper control for lending cases undertaken by the branches without relevant geographic relation that allowed the borrowers to present false evidence for proof of financial capacity in the application process.	1. BOK revised "Guide for Processing Real Estate Mortgage Loans" with the addition of content on tracing the sources of loan application, second authentication and validation of documents submitted for application, the control of suspected cell accounts, the procedure for the management of inter-region real property so as to fortify the procedure before the approval of loans. 2. Production of the Classification of the Sources of Mortgage Loans Sheet, Report on Cross-Region Real Estate Mortgage Loans and amendment to post-approval review operation for intensifying post-approval management.	1. Related banking units were notified in correspondence of related operations. 2. Listed as key audit matters for continued observation and review.
2. Labor Affairs Bureau of Kaohsiung City Government conducted an inspection on Wan Nei Branch of BOK, and found that BOK has violated Article 24 of the Labor Standard Act by failing to pay the employee XX Fang overtime payment as required by law. A fine of NT$40,000 was imposed.	BOK reiterated on 2016.11.4 and 2016.7.7 that all functional units and departments shall properly observe the "Particulars for Remuneration to Staff for the performance of overtime duties" of the Bank if it is necessary for the staff to work overtime.	Corrective action accomplished.
3. Former banking staff XX Lai was allegedly involved in the violation of the regulations of the Bank governing information security and the code of conduct of the staff by using unauthorized user ID for accessing the PC system of the Bank.	1. User ID assigned to individual PCs has been canceled. The Internet firewall has also screened out the connection with sensitive online APPs with relevant restriction in access, and control measures were established for regulating the system maintenance contractors. 2. Planned to institute the regulations governing the Administrator ID for intensifying the control of the behavior of the staff.	1. Related control measures were in place. 2. Regulation Governing Administrator ID of PC has been drafted out. 3. Listed as key audit matters for continued observation and review.
4. Former banking staff XX Chu was allegedly involved in the forging of official stamps of BOK for collecting a fee from loan accounts in illicit means, and made use of his position of BOK to borrow from the Bank in the names of friends and relatives. This was an isolated incident.	1. The information contained in the credit information system of BOK will be the basis of judgment for the approval of loans. 2. The custody of certification documents of collaterals or other surety, the statement of consent of cancellation of lien and related important documents, the incoming and outgoing of documents on the change of lien and cancellation were all documented on file in the information system for proper control. 3. The service charge for processing loans shall be confirmed by the statement of authorization of the borrowers and automatically linked to the loan account for automatic withdrawal from the account, and directly recognized as commission income for lending. 4. A report on abnormality including information on the telephone, e-mail, and address of the borrowers for detecting if any of these was our banking staff (including supervisors) or their related parties shall be submitted once semi-annually for the review of the banking units to prevent the banking staff foully used the names of the loan accounts of other people.	1. Related regulation for the operations and related amendment, and the support of the information system, have been drafted out 2. Listed as key audit matters for continued observation and review.

Ⅱ. Independent Auditor’s Report on Internal Control System.

27F.-1, No.6, Siwei 3rd Rd., Lingya Dist.,
Kaohsiung City, Taiwan, R.O.C.
TEL:(07)3312133 FAX:(07)3331710

Crowe Horwath (TW) CPAs
Member Crowe Horwath International

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

Mar. 16, 2017

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, 2016 subject to generally accepted auditing standards. We have also examined the internal audit design and execution for business operation in FY 2016, 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, 2016.

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：Jen-Yao Hsieh

Hsieh JEN YAO

CPA：Ping-Chang Su

Su Ping Chang

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

3.4.11 Penalty Received by The Bank for Unlawful Practices Over the Past Two Years and as The Date of Publication of Annual Report, and Corrective Action Taken Against Major Defects

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

Ⅱ. Penalty for Violation of Acts:

(i) Penalty:

The public treasury department of the Bank did not report “large volume currency transaction” to Investigation Bureau of Ministry of Justice within the stipulated period, which violates Paragraph 1 of Article 7 of Money Laundering Control Act. A fine of NT$200,000 was imposed by Financial Supervisory Commission pursuant to Paragraph 3 of Article 7 of the same Act on January 22, 2016.

(ii) Major defects:

The public treasury department undertook bills exchange exceeded NT$500,000 on August 12, 2014 and July 30, 2015, which were not reported to Investigation Bureau, Ministry of Justice within stipulated period that violates Paragraph 1 of Article 7 of “Money Laundering Control Act,” and Article 4 of “Regulations Governing Cash Transaction Reports(CTR) and Suspicious Transaction Reports(STR) by Financial Institutions”.

(iii) Improvement:

For the purpose of law compliance and preventing similar situation from happening again, the Bank not only corrected the report of “large volume bills exchange,” but also adopted following improvement measures:

A. Revising the control and management process for reporting large volume bill exchange:

a. Where the New Taiwan Bills exchange reaches NT$500,000, the customer shall fill in “New Taiwan Bills Exchange List.”

b. Recording the personal identification document provided by customers in the “Media Reporting Registration Form for Large Volume Bills Exchange” and completing reporting operation of “large volume bills exchange.”

c. When delivering bills to customers, supervisor or other colleagues shall conduct review and delivery operation.

d. The number of bills exchanges and media reporting done shall be specified in “Inquiry Balance Sheet of Cash-in-Hand Statement,” and the “New Taiwan Bills Exchange List” shall be stapled with the Sheet and kept for reference.

B. The Bank has listed the performance of money laundering prevention laws and operation norms as critical items of internal audit, self-audit and law compliance self-assessment and enhancing the laws and regulations promotion training in order to supervise the implementation of all units.

Ⅲ. Penalty for Violation of the Article 61-1 Banking Law: None.

Ⅳ. 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:

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

3.4.12 Improtant Decisions Resolved in the Regular Shareholders’ Meeting, Regular Board of Director’s Meeting and Special Meeting as in FY 2016 and up to March 2017

Ⅰ. Improtant Resolutions in the Regular Shareholders’ Meeting and the Execution of the Resolutions Reached：

The Resolutions	The Execution of the Resolutions
1. Earnings distribution for FY 2015.	Earnings per share at NT$0.55(including cash dividend of NT$0.03 and stock dividend of NT$0.52). Distribution completed on October 14, 2016.
2. 2015 Capital increase by issuing new shares.	Total amount of NT$ 405,010,280 was raised, and compltede in August 30, 2016 .
3. Handling the removal of limit on business strife limitation on Chairman Ruey-Tsang Lee.	Passed the removal of limit on business strife limitation on Chairman Ruey-Tsang Lee.

Ⅱ. Improtant Resolutions in the Regular Board of Director's Meeting and Extraordinary Meeting

Date	The Resolutions
Mar. 17, 2016	Passed the 2015 (from January 1 2015 to December 31 2015) consolidated and individual financial report of the Bank, as well as the draft of auditor's report proposed by Crowe Horwath (TW) CPAs.
Mar. 17, 2016	Passed the 2015 (from January 1 2015 to December 31 2015) earning distribution draft.
Mar. 17, 2016	Passed 2015 earnings and employee bonus transferring to capital increase and issuing new shares for the purpose of enriching capital.
Aug. 18, 2016	Passed the donation of NT$600,000 to sponsor the charity campaigns held by BOK Social Welfare and Charity Foundation.
Oct. 13, 2016	Passed continuing to appoint Crowe Horwath (TW) CPAs to conduct 2017 "Financial and Taxation Audit Certification" and 2016 "Internal Control System Project Audit" of the Bank.
Oct. 13, 2016	For keeping a healthy financial structure, in 2017 BOK approved to raise capital by offering 180 million new shares with the expectation of raising NT$1.8 billion. The detail is elaborated in the plan of offering new shares.
Dec. 22, 2016	The authority approved BOK application for doing the insurance agency service business by establishing the "Insurance Agent Department".
Dec. 22, 2016	Passed the institution of the "Best Practice Principle of Corporate Social Governance" for the Bank

3.4.13 The Documented Disagreement or Written Statement of the Directors Against the Important Resolutions Reached by the Board of Directors in FY 2016 and up to Mar. 2017:

Date	The Important Resolutions	The Summary of Objection
None	None	None

3.4.14 Summarization of Resignation and Dismissal of Parties (Including Directors, President, Financial Supervisor, Accounting Supervisor and Internal Audit Supervisor) Related to the Bank in FY 2016 and up to Mar. 2017:

Position	Name	Date of Employment	Date of Dismissal	Reason for Resignation or Dismissal
Chairman	Ruey-Tsang Lee	Nov. 20, 2015	Oct. 20, 2016	Retired

3.5 Information Regarding Fee

Range of Information Regarding Fee

The Name of the Office of CPA	The Name of the CPA		Audit Period	Remark
Crowe Horwath (TW) CPAs	Jen-Yao Hsieh	Ping-Chang Su	Jan. 1~Dec.31, 2016	None

Unit：NT$ Thousand

Fee Iterms / Range of Amount	Audit Fee	Non-Audit Fee	Amount
under 2 million	None	65	65
2 million (included) ~ 4 million	2,180	None	2,180
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	Jen-Yao Hsieh	2,180	0	0	0	65 (Note)	65	Jan. 1~Dec.31, 2016	None
	Ping-Chang Su								

Note: The balance stated as "Non-Audit Fee – Others" at NT$65 thousand refers to the appointed CPA's certification fee of offsetting bad debt, and business tax deduction for certification fee, and capital increase audit fee.

3.6 Alternation of CPA

3.6.1 About the Former CPA

<table>
<tr><td>Alternated date</td><td colspan="4">None</td></tr>
<tr><td>Alternated reason</td><td colspan="4">None</td></tr>
<tr><td rowspan="3">Please specify whether the appointment is terminated or unaccepted by the appointer or CPA.</td><td colspan="2">Related parties / Situation</td><td>CPA</td><td>Appointer</td></tr>
<tr><td colspan="2">Voluntary termination of appointment</td><td>None</td><td>None</td></tr>
<tr><td colspan="2">No further acceptance (continuation) of appointment</td><td>None</td><td>None</td></tr>
<tr><td>Opinion and reason for any audit report other than unqualified opinion in the last two years</td><td colspan="4">None</td></tr>
<tr><td rowspan="6">Any disagreement with the Bank</td><td rowspan="4">Yes</td><td>—</td><td colspan="2">Accounting principles or practices</td></tr>
<tr><td>—</td><td colspan="2">Disclosure of financial statement</td></tr>
<tr><td>—</td><td colspan="2">Scope or steps of audit</td></tr>
<tr><td>—</td><td colspan="2">Others</td></tr>
<tr><td>No</td><td colspan="3">V</td></tr>
<tr><td>Remarks</td><td colspan="3">None</td></tr>
<tr><td>Other disclosures</td><td colspan="4">None</td></tr>
</table>

3.6.2 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

3.6.3 The Former CPA's Written Response to the Matters Referred to in Article 10.6(1) and Article 10.6(2). (iii) of the "Criteria Governing Information to be Published in Annual Reports for Bank": None.

3.7 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.

3.8 Changes in Shareholding of Directors, 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 2016 and up to Mar. 2017.

3.8.1 Change of Shares

Title	Name	Jan. 1~Dec.31, 2016		Jan. 1~Dec.31, 2017	
		Change in Shareholding	Increase (decrease) on Pledged Shares	Change in Shareholding	Increase (decrease) on Pledged Shares
Acting Chairman	Chen-Cheng Chien (Representative of Kaohsiung City Government)	0	0	0	0
Independent Director and Managing Director	Wen-Yuan Lin	0	0	0	0
Managing Director	Li- Ming Hsu (Representative of Kaohsiung City Government)	0	0	0	0
Independent Director	Mei-Yueh Ho	0	0	0	0
Independent Director	Tzen-Ping Su	0	0	0	0
Director	Richard Lee (Representative of Kaohsiung City Government)	0	0	0	0
Director	Chien-Tsai Chao (Representative of Kaohsiung City Government)	0	0	0	0
Director	Jueifang P. Chen (Representative of Kaohsiung City Government)	18,157	0	19,108	0
Director	Tsung-kun Lee (Representative of Bank of Kaohsiung Corporate Union)	6,660	0	0	0
Director	Chung-Hsin Liu (Representative of Jinn Her Enterprise Co., Ltd.)	0	0	0	0
President	Moan-Sheng Huang	10,610	0	22,933	0
Exec. Vice President	Jin-Ann Wang	12,185	0	36,057	0
Exec. Vice President and Senior Vice President, Risk Management Dept., and Research & Development Dept.	Johnson Huang	8,963	0	25,394	0
Chief Auditor	Chung-Chen Lin	9,807	0	19,108	0
Counsel and Chief Secretary	Tsui-Mei Hsu	12,664	0	19,108	0
Chief Compliance Officer and Senior Vice President, Compliance Dept.	Te-Chin Chou	8,980	0	19,108	0
Senior Vice President, Business Administration Dept.	Anna Hsu	8,736	0	13,000	0
Senior Vice President, Credit Management Dept.	Ting-Lien Lin	9,898	0	29,438	0
Senior Vice President, Human Resources Dept., and Executive Administration Dept.	Shiu-Hui Liu	8,513	0	19,108	0
Senior Vice President, Treasury Dept. and General Manager, OBU Branch	J.C. Shou-Jen Chen	14,032	0	44,083	0
Senior Vice President, Information Technology Dept.	I-Fen Chen	12,368	0	19,108	0
General Manager, Municipal Treasury Dept.	Mei-Ling Chen	10,519	0	19,108	0
General Manager, International Banking Dept.	Shuen-Hua Chen	8,486	0	19,108	0
General Manager, Trust Dept.	Ching-Hui Lin	8,162	0	19,108	0
General Manager, Wealth Management Dept.	Yuan-Chin Shiang	11,561	0	19,108	0
General Manager, Business Dept.	Jung-Tai Chang	8,955	0	19,108	0
General Manager, Gangshan Benjhou Branch	Ming-Hung Wu	9,659	0	3,000	0
General Manager, Feng Shan Branch	Ming-Ta Yang	6,522	0	19,108	0
General Manager, Chien Chin Branch	Shu-Z. Chen	7,111	0	6,000	0
General Manager, San Min Branch	Yi-Chen Yu	8,332	0	10,000	0
General Manager, Tso Ying Branch	Wen-Jung Huang	5,995	0	5,000	0
General Manager, Hsiao Kang Branch	Hsien-Kuo Chen	8,713	0	19,108	0

Title	Name	Jan. 1~Dec.31, 2016		Jan. 1~Dec.31, 2017	
		Change in Shareholding	Increase (decrease) on Pledged Shares	Change in Shareholding	Increase (decrease) on Pledged Shares
General Manager, Tao Yuan Branch	Chuan-Pin Kao	8,223	0	19,108	0
General Manager, Chien Chen Branch	Yen-Ching Hsien	9,835	0	19,108	0
General Manager, Yu Chang Branch	Hueng-Fen Yen	8,891	0	5,000	0
General Manager, Wan Nei Branch	Shiow-Lien Su	11,840	0	5,000	0
General Manager, Pin Tung Branch	Chiu-Lan Hsu	(16,628)	0	0	0
General Manager, Kwei Lin Branch	Chiu-Chin Huang	9,065	0	10,000	0
General Manager, Liu Ho Branch	Hsien-Cheng Huang	12,704	0	19,108	0
General Manager, Nan Tze Branch	Wei-Min Wu	7,634	0	19,108	0
General Manager, Ku Shan Branch	Chi-Jen Lin	8,539	0	19,108	0
General Manager, Chien Kuo Branch	Ying-Mien Hsu	7,331	0	6,171	0
General Manager, Chiu Ju Branch	Trey-Shin Lee	9,828	0	19,108	0
General Manager, Yen Cheng Mini Branch	Mei-Chu Chang	9,035	0	0	0
General Manager, Tsao Ya Branch	Ching-Tsan Chen	8,418	0	0	0
General Manager, Banciao Branch	Hsien- Chung Liao	8,165	0	19,108	0
General Manager, Tai Nan Branch	Tai-Lu Tu	4,384	0	10,000	0
General Manager, San To Branch	Wen-Hau Sher	7,462	0	19,108	0
General Manager, Da Fa Branch	Tung-Feng Wu	6,507	0	19,108	0
General Manager, Ta Chih Branch	Don Huang	8,823	0	12,000	0
General Manager, Tai Chung Branch	Hwa-Jen Lee	8,915	0	19,108	0
General Manager, Chi Chin Mini Branch	Wen-Lueh Su	8,633	0	10,000	0
General Manager, Nan Kaohsiung Branch	Hsiu-Yen Wu	6,673	0	0	0
General Manager, Dali Branch	Yu-Huey Tsao	8,251	0	22,808	0
General Manager, Hsin Chu Branch	Jung-Lin Cheng	0	0	10,000	0
General Manager, Shih Fu Branch	Pi-Jung Ko	(17,599)	0	10,000	0
General Manager, Chung Ho Branch	Chuck Chen	8,896	0	15,000	0
General Manager, Taipei Branch	Wen-Lung Ting	8,791	0	20,108	0
General Manager, Min Cheng Branch	Li-Hwa Chen	11,481	0	19,108	0
General Manager, Pei Kaohsiung Branch	Chia-Hung Chen	5,878	0	10,000	0
General Manager, Po Ai Branch	Hui-Wen Chiu	5,835	0	19,108	0
Corporate shareholders on behalf of the Directors (Note)	Kaohsiung City Government	18,202,162	0	64,413,952	0
Corporate shareholders on behalf of the Directors (Note)	Jinn Her Enterprise Co., Ltd.	4,569,161	(37,017,446)	48,188,643	0
Corporate shareholders on behalf of the Directors (Note)	Bank of Kaohsiung Corporate Union	98,130	0	0	0

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

3.8.2 Information of Share Transfer

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 2016 and up to the Mar. 2017.

3.8.3 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 2016 and up to the Mar. 2017.

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

2017.4.23

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	432,657,702	43.13	0	0	0	0	None	None
Jinn Her Enterprise Co., Ltd.	92,170,604	9.19	0	0	0	0	Foundation Kaohsiung Jinn Her social welfare charity foundations	The same principal
							His-Hui Chen	Director
Yuan Yang Logistics Co., Ltd.	34,981,576	3.49	0	0	0	0	None	None
Foundation Kaohsiung Jinn Her social welfare charity foundations	32,832,486	3.27	0	0	0	0	Jinn Her Enterprise Co., Ltd.	The same principal
							His-Hui Chen	Director
Mr. Chen Qichuan, Foundation of Culture and Education Foundation	30,840,000	3.07	0	0	0	0	None	None
Chun-Chin Shih	21,518,276	2.14	17,626,255	1.76	0	0	Mei-Yuan Yu	Spouse
Mei-Yuan Yu	17,626,255	1.76	21,518,276	2.14	0	0	Chun-Chin Shih	Spouse
Standard Chartered international commercial banking department entrusted with the custody ISHARES MSCI Emerging Markets ETF core investment accounts	12,934,149	1.29	0	0	0	0	None	None
Citigroup (Taiwan) commercial banks entrusted with the custody dimensional assessment of emerging market investment fund accounts	5,919,617	0.59	0	0	0	0	None	None
His-Hui Chen	5,172,217	0.52	1,212,130	0.12	0	0	Jinn Her Enterprise Co., Ltd.	Director
							Foundation Kaohsiung Jinn Her social welfare charity foundations	Director

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

Mar 31, 2017

Unit：Shares ; %

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	0	0	700,000	3.53179
Taiwan Futures Exchange Corporation	917,997	0.30000	0	0	917,997	0.30000
Taiwan Finance Corporation	51,616,500	10.00000	0	0	51,616,500	10.00000
Waterland Securities Co., Ltd.	44,925,210	4.93684	0	0	44,925,210	4.93684
Taiwan Asset Management Corporation	7,500,000	0.56754	0	0	7,500,000	0.56754
Taiwan Financial Asset Services Co., Ltd.	5,000,000	2.94118	0	0	5,000,000	2.94118
Kaohsiung Rapid Transit Corporation	643,031	0.23080	0	0	643,031	0.23080
Kaohsiung Bank General Insurance Agency Co., Ltd.	500,000	100.00000	0	0	500,000	100.00000
Kaohsiung Bank Insurance Agency Co., Ltd.	300,000	100.00000	0	0	300,000	100.00000
Financial Information Services Co., Ltd.	5,937,750	1.13750	0	0	5,937,750	1.13750
Taiwan Depository & Clearing Corporation	292,499	0.08298	0	0	292,499	0.08298
Sunny Asset Management Corporation	347	0.00578	0	0	347	0.00578
Taiwan High Speed Rail Corp.	300,000	0.00533	0	0	300,000	0.00533
iPASS Corporation	4,000,000	5.00000	0	0	4,000,000	5.00000
TWMP Co., Ltd.	300,000	0.50000	0	0	300,000	0.50000

4.1 Capital and Shares

4.1.1 Source of Capital

Ⅰ. Issued Shares

Unit：NT$

Year / Month /Date	Par Value	Authorized Capital		Paid-in Capital		Remark	
		Shares	Amount	Shares	Amount	Sources of Capital	Others
Mar 31, 2017	10	1,500,000,000	15,000,000,000	1,003,223,825	10,032,238,250	Initial capital and capital increase by cash, by capital reserve, by special reserve, and by earnings in the past years.	—

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

Ⅱ. Capital Increase Information

Unit：NT$

FY	Authorized Capital / Paid-in Capital	Remark	Authorized by the Competent Authority
1983	— / 450,000,000	Initial capital NT$450 million by cash	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 339.500 thousand by cash	MOF,Tai-Tsai-Rong-No.84377510 (Sep. 6, 1995)
1997 (1997.6.4)	— / 2,367,968,260	Capital increase NT$214 million and 888.760 thousand by cash	MOF,Tai-Tsai-Rong-No.86056443 (Mar. 11, 1997)
1998 (1997.10.9)	— / 3,867,968,260	Capital increase NT$1.5 billion by cash (Public solicit)	MOF,Tai-Tsai-Rong-No.86164514 (Jun. 10, 1997)
1999 (1999.3.1)	— / 4,486,843,180	Capital increase NT$618 million and 874.920 thousand by special reserve	MOF,Tai-Tsai-Rong-No.87419912 (Dec. 30, 1998)
2002 (2002.8.19)	— / 4,576,580,040	Capital increase NT$89 million and 736.860 thousand by earnings	MOF,Tai-Tsai-Rong-No-0910030462 (Jul. 10, 2002)
2004 (2004.8.16)	— / 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 (2005.6.23)	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 743.910 thousand by earnings	FSC, Jin-Kuan-Cheng-(1)-No.0970032868 (Jul. 9, 2008)
2011 (2011.8.7)	15,000,000,000 / 5,869,475,790	1. Capital increase NT$78 million and 869.720 thousand by earning 2. Capital increase NT$525 million and 798.190 thousand by special reserve 3. Capital increase NT$6 million and 825.930 thousand by employees' bonuses	FSC, Jin-Kuan-Cheng-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-No.1000040741 (Sep. 8, 2011)
2013 (2013.09.12)	15,000,000,000 / 7,210,491,900	1. Capital increase NT$127 million and 250.560 thousand by earning 2. Capital increase NT$13 million and 765.550 thousand by employees' bonuses	FSC, Jin-Kuan-Cheng-No.1020026476 (Jul. 15, 2013)
2014 (2014.10.06)	15,000,000,000 / 7,403,513,870	1. Capital increase NT$43 million and 262.950 thousand by earning 2. Capital increase NT$144 million and 209.830 thousand by special reserve 3. Capital increase NT$5 million and 549.190 thousand by employees' bonuses	FSC, Jin-Kuan-Cheng-No.1030028076 (Jul. 31, 2014)
2015 (2015.10.01)	15,000,000,000 / 7,788,659,250	1. Capital increase NT$347 million and 965.150 thousand by earning 2. Capital increase NT$37 million and 180.230 thousand by employees' bonuses	FSC, Jin-Kuan-Cheng-No.1040026302 (Jul. 21, 2015)
2016 (2016.10.14)	15,000,000,000 / 8,232,238,250	1. Capital increase NT$405 million and 10.280 thousand by earning 2. Capital increase NT$38million and 568.720 thousand by employees' bonuses	FSC, Effective registration in Aug. 3, 2016.
2017 (2017.3.22)	15,000,000,000 / 10,032,238,250	Capital increase NT$1.8 billion by cash	FSC, Jin-Kuan-Cheng-No.1050053219 (Jan. 9, 2017)

Ⅲ. Type of Stock

2017.4.23

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Stocks	1,003,223,825	496,776,175	1,500,000,000	Listed on the TSE

4.1.2 Status of Shareholders

2017.4.23

Item	Government Agencies	Financial Institutions	Other Juridicial Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	1	1	49	22,457	87	22,595
Shareholding	432,657,702	125,000	208,528,674	311,450,050	50,462,399	1,003,223,825
Percentage	43.13	0.01	20.78	31.05	5.03	100

4.1.3 Shareholding Distribution Status

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

2017.4.23

Class of Shareholding (Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 — 999	8,538	1,978,225	0.20
1,000 — 5,000	6,433	15,178,031	1.51
5,001 — 10,000	3,805	23,852,407	2.38
10,001 — 15,000	1,182	14,780,338	1.47
15,001 — 20,000	482	8,466,449	0.84
20,001 — 30,000	691	17,280,227	1.72
30,001 — 50,000	556	21,336,341	2.13
50,001 — 100,000	443	30,278,601	3.02
100,001 — 200,000	248	34,949,196	3.48
200,001 — 400,000	114	31,676,626	3.16
400,001 — 600,000	24	11,619,551	1.16
600,001 — 800,000	19	12,965,751	1.29
800,001 — 1,000,000	14	12,763,046	1.27
Over 1,000,001	46	766,099,036	76.36
Total	22,595	1,003,223,825	100.00

Ⅱ. Preferred Shares：None.

4.1.4 List of Major Shareholders

2017.4.23

Shareholders's Name	Shareholding	
	Shares	Percentage
Kaohsiung City Government	432,657,702	43.13
Jinn Her Enterprise Co., Ltd.	92,170,604	9.19
Yuan Yang Logistics Co., Ltd.	34,981,576	3.49
Foundation Kaohsiung Jinn Her social welfare charity foundations	32,832,486	3.27
Mr. Chen Qichuan, Foundation of Culture and Education Foundation	30,840,000	3.07
Chun-Chin Shih	21,518,276	2.14
Mei-Yuan Yu	17,626,255	1.76
Standard Chartered international commercial banking department entrusted with the custody ISHARES MSCI Emerging Markets ETF core investment accounts	12,934,149	1.29
Citigroup (Taiwan) commercial banks entrusted with the custody dimensional assessment of emerging market investment fund accounts	5,919,617	0.59
His-Hui Chen	5,172,217	0.52

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	2015	2016	2017.3.31
Market Price Per Share (Note 1)	Highest		10.20	9.57	9.97
	Lowest		7.83	8.32	9.01
	Average		9.04	8.88	9.63
Net Worth Per Share (Note 2)	Before Distribution		15.28	15.14	—
	After Distribution		15.29	—	—
Earnings Per Share	Weighted Average Shares		776,697,078	820,652,577	—
	Diluted Earnings Per Share		0.76	0.79	—
	Adjusted Diluted Earnings Per Share		0.72	—	—
Dividends Per Share	Cash Dividend		0.03	0.60	—
	Stock Dividends	Dividends from Retained Earnings	0.52	0	—
		Dividends from Capital Surplus	0	0	—
	Accumulated Undistributed Dividends		0	0	—
Return on Investment	Price / Earnings Ratio (Note 3)		11.89	11.24	—
	Price / Dividend Ratio (Note 4)		301.33	14.80	—
	Cash Dividend Yield Rate (%) (Note 5)		0.33	6.76	—

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

Ⅰ. Dividend Policy：Please refer to page 103 for "Notes to Financial Statements 6.24 Retained Earnings".

Ⅱ. The FY 2017 shareholders meeting has resolved to distribute a cash dividend of NT$0.6, per share to shareholders for FY 2016.

4.1.7 The Impact of Stock Dividend Distribution Resolved by the 2017 Shareholders Meeting on the Banks Operating Performance and Earnings Per Share (EPS): None.

4.1.8 Employees Bonus and Directors Remuneration

Ⅰ. Information relating to employees bonus and directors remuneration in the Articles of Incorporation please refer to page 107 for "Notes to Financial Statements 6.34Employees Bonus Expense".

Ⅱ. (i) Estimate foundation of employees bonus and directors remuneration:

This Banks management estimated employee bonus and remuneration to directors pursuant to the Articles of Incorporation.

(ii) The share calculation basis of employee remuneration apportioned with shares and the accounting disposition when the actual apportioned amount is different from the estimated number:

The difference shall be identified as accounting change. The accounts will be adjusted in the same with resolution of Board of Directors and stated as income for the current period.

Ⅲ. The board of directors passed the 2016 apportioned remuneration:

(i) The remuneration amount for employees and directors apportioned with cash or shares. If the amount is different from the estimated amount in the year of recognizing expenses, the number of difference, reasons and disposition shall be disclosed:

Employee remuneration cash amount: NT$ 35,498,040.

Employee remuneration shares amount: NT$ 0.

Director remuneration amount: NT$ 8,874,510.

Employee compensation compared with the estimated amount listed decrease $1,381,960, representing an estimated compensation of directors to reduce the amount of column $345,490; Department differences caused by changes in accounting estimates, the amount of the difference between profit or loss adjusted fiscal FY 2017.

(ii) The employee remuneration amount apportioned with shares and that amount accounting for the proportion of the net profit after tax in this term' s single or individual financial report and the total number of employee remuneration: 5.48%.

Ⅳ. The actual apportionment of employee, director and supervisor remuneration (including apportioned shares, amount and share price) of 2015. The number of difference, reasons and disposition shall be clarified if the remuneration is different from the recognized employee, director and supervisor remuneration:

(i) Earnings distribution for employee bonus for FY 2015: NT$ 34,249,026, Shares 3,856,872 and Price 8.88.

(ii) Remuneration to directors and supervisors appropriated from retained earnings for FY 2015: NT$ 8,562,256.

(iii) Corresponded with the decision of the Board of Director.

4.1.9 Buyback of Treasury Stock : None.

4.2 Financial Bonds, Preferred Stocks, Overseas Depository Receipts, Employees Stock Options Receipts, New Restricted Employee Shares Compensation, Acquire or Transferee other Financial Institutions

4.2.1 Financial Bonds

Item	Subordinate debt (2013-01)	Subordinate debt (2013-02)	Subordinate debt (2014-01)	Subordinate debt (2014-02)	Subordinate debt (2014-03)
Date & No Approved by the Central Competent Authority	FSC, Jin-Kuan-Yin-Guo-No. 10200181590 (July 9, 2013)	FSC, Jin-Kuan-Yin-Guo-No. 10200181590 (July 9, 2013)	FSC, Jin-Kuan-Yin-Guo-No. 10200341440 (Dec. 10, 2013)	FSC, Jin-Kuan-Yin-Guo-No. 10200341440 (Dec. 10, 2013)	FSC, Jin-Kuan-Yin-Guo-No. 10200341440 (Dec. 10, 2013)
Date of Issuance	Aug. 6, 2013	Sep. 5, 2013	Mar. 25, 2014	Oct. 29, 2014	Dec. 23, 2014
Par	5 million	1 million	10 million	10 million	10 million
Place of Issuance and Trade	Republic of China	Republic of China	Republic of China	Republic of China	Republic of China
Currency	New Taiwan Dollars	New Taiwan Dollars	New Taiwan Dollars	New Taiwan Dollars	New Taiwan Dollars
Price of Issuance	100%	100%	100%	100%	100%
Total Amount	1.3 billion	0.7 billion	1.2 billion	0.65 billion	0.15 billion
Interest	Fixed rate 2.10%	Fixed rate 2.10%	Indicator Rate (Note) +0.85% Floating Interest Rate	Fixed rate 2.35%	Fixed rate 2.35%
Tenor	7 years, maturity date：Aug. 6, 2020	7 years, maturity date：Sep. 5, 2020	7 years, maturity date：Mar. 25, 2021	7 years, maturity date：Oct. 29, 2021	7 years, maturity date：Dec. 3, 2021
Senior / Subordinate debt	Subordinate debt	Subordinate debt	Subordinate debt	Subordinate debt	Subordinate debt
Guarantor	None	None	None	None	None
Trustee	None	None	None	None	None
Underwriter	Sino Pac securities, Yuan Ta securities, Master Link securities	Sino Pac securities, Yuan Ta securities	Sino Pac securities, Yuan Ta securities, Master Link securities	Yuan Ta securities	Sino Pac securities
Certified Lawyers	None	None	None	None	None
Certified Public Accountants	None	None	None	None	None
Certification Institution	None	None	None	None	None
Repayment	Repayment in lump sum upon maturity	Repayment in lump sum upon maturity	Repayment in lump sum upon maturity	Repayment in lump sum upon maturity	Repayment in lump sum upon maturity
Outstanding Balance	1.3 billion	0.7 billion	1.2 billion	0.65 billion	0.15 billion
Year 2008 Paid-in Capital	7.0 billion 69.47million 5 thousand 7 hundred and ninety	7.0 billion 69.47million 5 thousand 7 hundred and ninety	7.2 billion 10.49 million 1 thousand and 9 hundred.	7.2 billion 10.49 million 1 thousand and 9 hundred.	7.2 billion 10.49 million 1 thousand and 9 hundred.
Year 2008 Total Stockholders' Equity	10.9 billion 4.61 million 3 thousand 9 hundred and ten	10.9 billion 4.61 million 3 thousand 9 hundred and ten	10.7 billion49.04 million 1 thousand 9 hundred and seventy.	10.7 billion49.04 million 1 thousand 9 hundred and seventy.	10.7 billion49.04 million 1 thousand 9 hundred and seventy.
Performance	Normal	Normal	Normal	Normal	Normal
Redemption or Early Exercise Term	None	None	None	None	None
Convertible and Swap Term	None	None	None	None	None
Restricted Clause	None	None	None	None	None
Fund Utilization Plans	Corporate with Medium and Long Term Loans	Corporate with Medium and Long Term Loans	Corporate with Medium and Long Term Loans	Corporate with Medium and Long Term Loans	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 (%)	55.02%	55.02%	74.43%	65.12%	65.12%
Whether Include Qualified Capital and the Corresponding Category	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
Credit Rating Agency, Date and Rating	Fitch Australia Pty Ltd. Taiwan Branch：A (twn), Mar. 9, 2017.	Fitch Australia Pty Ltd. Taiwan Branch：A (twn), Mar. 9, 2017.	Fitch Australia Pty Ltd. Taiwan Branch：A (twn), Mar. 9, 2017.	Fitch Australia Pty Ltd. Taiwan Branch：A (twn), Mar. 9, 2017.	Fitch Australia Pty Ltd. Taiwan Branch：A (twn), Mar. 9, 2017.

Note: The indicator rate means the three-month Taipei Inter Bank Offer Rate (TAIBOR) posted on the website of the Bankers Association (http://www.ba.org.tw) in the TAIBOR section, at the time that is 2 Taipei business days prior to the start of the relevant interest period.

4.2.2 Preferred Stocks, Overseas Depository Receipts, Employees Share Options Receipts, New Restricted Employee Shares Compensation, Acquire or Transferee other Financial Institutions : None.

4.3 Financing Plans and Implementation

4.3.1 Finance Plans

Up to Q1 of 2017, 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 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 Union Pay 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 (and OBU Foreign Check Deposit), Foreign Currency Loans, and Payment Secured by Foreign Currency, Transaction of Derivative Financial Products.
Trust Business	Trust of Real Estate, Trust of Securities, Money Trust, Trust of Money Claim and Guaranted 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	2016.12.31		2015.12.31	
	Amount	%	Amount	%
Total Assets	256,280	100.00	263,140	100.00
Consumer Banking Business	65,423	25.53	69,811	26.53
Corporate Banking Business	112,228	43.79	98,152	37.30

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

Unit : NT$ Million, %

Item	2016.1.1-2016.12.31		2015.1.1-2015.12.31	
	Amount	%	Amount	%
Total Operating Revenue	5,661	100.00	6,047	100.00
Revenue on Loan Business	3,932	69.46	4,283	70.83
Revenue on Investing Business	913	16.13	973	16.09
Revenue on Wealth Management Business	414	7.31	382	6.32
Revenue on Deposit Business	26	0.46	31	0.51
Revenue on Foreign Exchange Business	20	0.35	21	0.35

5.1.4 Business Plan in 2017

Ⅰ. Loan–Maintain active business development of niche type loans and continuing improvement in the quality of loan assets:

(i) Increase the proportion of SME loans to support local industries. In addition, the Bank will continue to develop commercial loan business in support of the municipal policies of City Government of Kaohsiung.

(ii) Cautious selection of mortgages and construction loans clients and increase the relevant fee income.

(iii) Expand the asset base of loans in foreign currencies to increase profit margin.

Ⅱ. Deposits–Reduce the cost of fund in local and foreign currencies:

(i) Launch internal business campaign to encourage all business units to increase the size of current deposits.

(ii) Adjust jumbo-size time deposits based on the growth of regular time deposits.

Ⅲ. Non-interest income–Increase the proportion of fee income in consolidated revenue:

(i) Commission incomes generated from sales of investment and insurance products will be key drivers.

(ii) Stay progressive in the market with the introduction of new mutual-fund insurance products.

(iii) Moderate investment in stocks for a steady dividend income and capital gains.

Ⅳ. International Banking–Keep abreast of international banking development to increase the proportion of income from internal banking and financial operation:

(i) Augment the investment in securities denominated in foreign currencies via the OBU with consideration of asset security, liquidity and return to improve the income of financial operation.

(ii) Strict control the credit exposure in Mainland China properly and secure good quality loans with adding the interest margins.

(iii) Uphold the principle of international syndicated loan selection and focus on borrowers and industries with stable and positive outlooks.

Ⅴ. Digital Banking–Development of mobile and customized services:

(i) Continue to improve the online banking services and develop marketing strategies based on Big-Data analysis.

(ii) Improve the functions of mobile banking services and fortify data security and risk control.

(iii) Promote electronic banking systems to reduce the cost of over-the-counter banking services.

(iv) Upgrade mobile payment services based on user experience.

Ⅵ. Legal Compliance and AML–stablishment of Compliance Department for regarding matters

(i) Map out action plans for legal compliance as well as AML/CFT plans with risk-based methodology.

(ii) Establishment of Compliance Department responsible for monitoring operations risks triggered by changes in banking regulations and AML/CFT-related matters.

Ⅶ. Internal Control–Balance between risk control and operation efficiency:

(i) Establishment and implementation of additional auditing programs fortify to prevent operation frauds.

(ii) Intensive instructions and supervision conducted by business unit managers to minimize operation risk.

(iii) Consistent review of auditing programs to balance risk management and operating efficiency.

5.1.5 Market Analyses

Ⅰ. Regions Where the bank Operates

The bank focuses primarily on the domestic market. Until the end of 2016, 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.

Ⅱ.Future Supply and Demand and Growth of the Market in which the bank is Engaged

(i) Future supply and demand of market

Under the influences of the central bank's targeted prudent control measures and the domestic economy slowdown, trading volume for the real estate market has reduced, tax burdens have increased, and the housing prices have gradually dropped. In addition, the central bank has cut the interest rate 4 times in 2015 to create a relaxed financial environment and caused the mortgage interest rates to gradually drop. The competent authority has also continued to strengthen real estate credit risk management, which slowed down the residential and construction loan growths for banks.

In terms of the current market scale in Taiwan, there are still too many banks, which leads to fierce competition and expansion difficulties. This factor obstructs the scale economy and category economy developments, making it difficult to reduce costs, and thereby negatively impacts business performance improvement.

The asset size for the banks of this nation has continued to grow in 2016, the NPL ratio of the corporate sector is at a historic low, and the credit quality is still good. However, the annual asset growth rate has slowed down. The domestic annual asset growth rates for the domestic business units, Offshore Banking Unit (OBU), and offshore branches have all dropped with OBU suffering the steepest decline. In addition, the manufacturer’ s capital demands dropped and bank lending has become more conservative due to domestic and foreign economy slowdowns.

(ii) Growth of the bank

The Bank 3.0 generation, the rise of Fintech, and the rapid rise of the third-party payment vendors in the Internet domain have driven the development of the digital financial businesses. Large-scale financial holdings have the strong capital, ample labor, and operation diversification advantages. The information capability of the developing digital-finance and Fintech brings strong competitive pressures to the domestic small and medium size industry peers.

Faced with this digital transformation trend, we have been comprehensively updating our information system since 2014 and developing new-generation online banking to make the online services even more optimized and provide differentiated financial services in order to strengthen our own competitive advantages. Our goal is to become a “professional” and “high quality” bank with agile business strategies with flexibility and strict asset quality control. We will also adopt the in-depth local cultivation strategies to take full advantages of the abundant local contacts. Exert the treasury agent business integration advantages and the specialty business of social rescue trusts to promote life-oriented inclusive trusts and provide financial services to more customers.

Ⅲ. The bank Competitive Niche

In recent years, large-scale financial holding companies have had an extensive product line, large customer base, and low capital costs advantages that bring strong competitive pressures to small and medium-size domestic banking, insurance, and securities industries. Meanwhile, after a series of financial reforms, the government will continue to promote financial institution consolidations. In this financial holdings era of the strong gets larger and under the consolidation development trend promoted by the government, the domestic financial landscape is expected to continue to change, and the competitive pressures faced by the small and medium-size banks will increase.

In light of the market changes, the bank will continue to strengthen our competitive advantages by become a “professional” and “fine-quality” bank with agile business strategies with flexibility and strict asset quality control. We will also adopt an in-depth local cultivation strategy to take full advantages of the abundant local contacts. After the county and city mergers, we plan to use our agent treasure business integration advantages to provide services to more customers.

Ⅳ. Advantageous and Disadvantageous Factors of the bank Prospect, and Response Measures

(i) Favourable Factors

A. The Kaohsiung City Government holds 43.13% of the bank 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.

D. During the Kaohsiung Petrochemical gas explosion and the Tainan 206 earthquake, this Bank has exerted its trust professionalism to successfully launch the specialty trust businesses using the social assistance public welfare trust as the foundation to promote the trust needs to the general everyday-life level, and to reduce the threshold of trust to actively promote trust inclusion.

E. This Bank is the only Bank headquartered in Kaohsiung City tightly integrated with the economic development of the local businesses as well as the financial needs of the social community. We will continue to exert the local financial responsibility and municipal cooperation. Therefore, the economic development of southern Taiwan and local industry transformation will lead to business opportunities for this Bank.

(ii) Unfavourable Factors

A. Small business size and weak bargaining power makes the bank susceptible to market competition and lower interest margins.

B. The global economy recovery has been slow primarily due to the divergence in economic performances. The monetary easing maintained by Japan and Europe, the global financial foreign exchange market turmoil when Trump was elected president of the United States, and the risks of economic recessions for countries other than the United States are unfavorable to business expansion for this Bank.

C. Speed the promotion of Bank 3.0. Small and medium banks are limited by resources, which was harmful to investments in IT equipment.

(iii) Response Measures

A. Increase the size of capital, strengthen the competitiveness and risk-bearing capacity, and create revenue.

B. Continue enhancing upgrading the proportion of loans to SMEs, fostering local SMEs, increasing the bank’s income and creating a win-win situation.

C. In the face of the changing financial environment, adhere to the business strategy of “stable growth, high profit,” carefully expand relevant investments and loan businesses, and implement risk management mechanisms.

D. Select an appropriate digitization development strategy, gradually optimize the information, develop a digital financial management environment, and maintain the competitiveness of the Bank.

E. Develop specialty trust businesses and strengthen trust income in order to increase the ratio of non-interest income.

F. Strengthen the digital-finance skill trainings for practitioners, enhance the employee's digital abilities, promote workforce skill transformation, and enhance competitiveness.

5.1.6 Overview of Research and Business Development of Financial Products

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

(i) Scale of Major Financial Products

Unit : NT$ Million

Major Financial Products	2015.12.31 Balance	2016.12.31 Balance	2017.03.31 Balance
Loans to SMEs	49,643	53,523	53,127
Tuition Loan	5,911	5,637	5,423
Simple Credit Loans	828	721	637
Specific Money Trusts Earmarked for Investing Foreign and Domestic Securities	16,796	17,143	17,515
Trust Assets	19,394	20,099	20,642

(ii) New Business Units : None.

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

(i) Expenditure of R & D

Unit：NT$ Million

Year	2016	2015
Amount	0.65	0.60

(ii) Results of R & D

Business Item	Financial Products
Deposit Business	Launch the ATM interbank deposit function, Taiwan debit card cross-country (Japan) consumption charge services, smart chip debit card cross-country (Hong Kong, Macao) withdrawal and fund inquiry businesses.
Loan Business	Launched New Caoya region land sale project loans, machinery equipment upgrade loans, Housing Endowment Leisure Living for the Elderly project loans, and High Quality High Interest-II Financial Management project loans.

(iii) Future Plans of R & D

Unit : NT$ Million in 2017.3.31

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

Ⅰ. Short-term Business Development : Please refer to P44 “5.1.4 Business Plan for 2017”.

Ⅱ. Long-Term Development :

(i) Reinforce innovation in digital banking.

(ii) Develop values of customer relationship.

(iii) Innovate in new business for acquiring digital native customer.

(iv) Promote financial inclusion for daily living in line with the development of FinTech.

(v) Continuously develop recognizable trust business.

(vi) Expand business area into overseas markets.

(vii) Expand operation scale and strengthen competitive power in both finance and operations in order to advance to our goal as a decent bank.

5.2 Human Resources

5.2.1 Information of Employees for the Past Two Years & Up to Mar. 2017

<table>
<tr><th colspan="2">FY</th><th>2015</th><th>2016</th><th>2017.3.31</th></tr>
<tr><td colspan="2">Number of Employees (Person) (Note)</td><td>933</td><td>929</td><td>929</td></tr>
<tr><td colspan="2">Average Age (Years old)</td><td>47.71</td><td>47.86</td><td>48.03</td></tr>
<tr><td colspan="2">Average Years of Service (Year)</td><td>20.79</td><td>20.97</td><td>21.00</td></tr>
<tr><td rowspan="5">Level of Education (%)</td><td>Ph.D.</td><td>0.21</td><td>0.22</td><td>0.22</td></tr>
<tr><td>Masters</td><td>14.47</td><td>14.96</td><td>14.85</td></tr>
<tr><td>Bachelor’s Degree</td><td>75.92</td><td>75.56</td><td>75.89</td></tr>
<tr><td>Senior High School</td><td>8.53</td><td>8.40</td><td>8.18</td></tr>
<tr><td>Below Senior High School</td><td>0.86</td><td>0.86</td><td>0.86</td></tr>
<tr><td rowspan="16">Name of Employees With Certificates, Licenses and Qualifications (person)</td><td>Securities Investment Analyst</td><td>4</td><td>4</td><td>4</td></tr>
<tr><td>Securities Specialist</td><td>80</td><td>86</td><td>87</td></tr>
<tr><td>Senior Securities Specialist</td><td>236</td><td>237</td><td>236</td></tr>
<tr><td>Securities Investment Trust and Consulting Professionals</td><td>179</td><td>186</td><td>186</td></tr>
<tr><td>Analysts of Futures Trading</td><td>1</td><td>1</td><td>1</td></tr>
<tr><td>Futures & trust fund sale representatives</td><td>114</td><td>113</td><td>113</td></tr>
<tr><td>Bill Finance Specialist</td><td>227</td><td>227</td><td>229</td></tr>
<tr><td>Trust Supervisor</td><td>9</td><td>9</td><td>9</td></tr>
<tr><td>Trust Manager</td><td>191</td><td>186</td><td>183</td></tr>
<tr><td>Trust Operations Personnel</td><td>682</td><td>691</td><td>694</td></tr>
<tr><td>Basic Test for Bank Internal Control</td><td>710</td><td>717</td><td>714</td></tr>
<tr><td>General Insurance Agency</td><td>1</td><td>2</td><td>2</td></tr>
<tr><td>Insurance Agency</td><td>2</td><td>2</td><td>2</td></tr>
<tr><td>Life (Investment Link) Insurance Sales Agents</td><td>814</td><td>837</td><td>836</td></tr>
<tr><td>Non-Life Insurance Sales Agents</td><td>637</td><td>664</td><td>663</td></tr>
<tr><td>Certified Public Accountants</td><td>1</td><td>1</td><td>1</td></tr>
</table>

Note: Number of Employees which is exclude directors of board.

5.2.2 Employees’ Further Education and Training

Ⅰ. 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 2016.

Ⅱ. 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 2016 are as follows:

(i) Internal Training (Include Commissioned Training): In 2016, 67 class-times of were offered and a total of 3,818 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; exchange practices, clean bill collection, and cash authentication workshop (Taipei class); as well as seminars and leadership management course.

(ii) 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 2016, we have sent a total of 706 person-times to participate in such training programs.

(iii) Overseas Educational Visits / Seminar：In FY 2016, the bank sent 15 person-times abroad to undertake educational visits.

(iv) To fulfill the coroprate governance system and upgrade directors' / supervisors' professional intelligence, the bank sent 7 directors including Ruey-Tsang Lee to attend the corporate governance or financial professional programs in 2016, totaling 16 person-times.

5.3 Social Responsibility and Moral Behavior of the Bank

5.3.1 Care about Society

The Bank established the "Kaohsiung Bank Social Welfare and Charity Foundation" in March 2008, which is committed to various public services and charity events. In 2016, the Bank made donations to "Kaohsiung City Joint Education Assistance Service Plan," "Hand-in-Hand Paying Love Forward Charity Delivery – Vulnerable Household Food Coupon Service Plan," "Kaohsiung City Warmth during Winter Event," "Limitless Love ~ Good New Year Festival for Disadvantaged Children", "Public Babysitting Center Assistance for the Disadvantaged" plans organized by the Social Affairs Bureau of Kaohsiung City Government, "Living-Alone Elderly Home Bath (Vehicle) and Subsidization for Disadvantaged Deaf Students" held by the Rising Foundation, "Love the Elderly, Love Team Members" event held by the Huashan Social Welfare Foundation, "2017 Barrier Free Love, Fireplace, and Care Plan" held by the Eden Social Welfare Foundation, "Food for the Disadvantaged 30" event held by the Ren-an Homeless Social Welfare Foundation, "Welcoming the Spring with Warmth and Care" event held by the Caring for Earth Foundation of Kaohsiung City, "2016 Kaohsiung City Dream Community Carnival Parade and Workshop Establishment" plan held by the Kaohsiung City Dream City Promotion Association, "2016 Charitable Love, Care, & Thanksgiving to the Earth" event held by the Kaohsiung City Houjin Baosheng Dadi Charity, the "Mother's Day Thanksgiving Season/Care for New Residents Fun Pizza Making" event held by the Kaohsiung City Sanmu District Bayu Community Development Association, the "Dragon Boat Festival Warm Glutinous Rice Meat Dumpling Love" event held by the Kaohsiung Lotus Pond Culture and Tourism Association, assistance for the "2016 Spring Blood Donation to show Love" event held by the Kaohsiung City Caring for Earth Association, and held the blood donation event in front of the Hanshin Arena.

5.3.2 Assistance for Learning and Growth

The Bank diligently participated in and sponsored the "2016 Community Decree Advocacy and Volunteer Association Seminar" held by the Kaohsiung City Zuoying District XinXia Community Development Association, "2016 Outstanding Single Mother Praise" event held by the Single-Parent Education Foundation, the "Big Parent-child Film Festival" held by the Taiwan International Media and Education Association, the "7th Junior Chamber International" event held by Kaohsiung City Kao Du Junior Chamber, and the "Kaohsiung City 3rd Speaker Cup Children's Painting Competition" held by Kaohsiung Zhengyou Lions Club.

5.3.3 Sponsor Art & Cutural and Physical Training Events

The Bank diligently participated in and sponsored “2016 The 14th term Taiwan National Cup International Ground Golf Exchange Meeting” held by Taiwan Ground Golf Association, “2016 Guen-Shuei Pro Cup National Badminton Championship” held by the Kaohsiung City Guen-Shuei Promotion Association, the “2016 Chairman Cup Gateball Championship” held by the Kaohsiung City Gateball Association, “3rd Qingsong Cup National Ground Golf Invitational” held by the Kaohsiung City Sports Club Ground Golf Committee, “2016 Hakka Yimin Cup National Gateball Invitational” held by the Kaohsiung City Gateball Association, “Kaohsiung Summer Cup Gateball Invitational” held by the Kaohsiung City Qingfeng Sports Association, and “2016 7th Kaohsiung Harbor Cup National Badminton Championship” held by the Kaohsiung City Sports Club Badminton Committee.

5.4 The Number of Employees that are Not in the Manager Position, the Annual Employee Average Benefit Expenses and the Difference Comparing with the Previous Year

Unit：NT$ Thousand, person

Item	Dec. 31, 2015	Dec. 31, 2016	The difference comparing with the previous year
The number of employees that are not in the manager position (Person)	737	738	1
The annual employee average benefit expenses (NT$ Thousand)	1,069	1,147	78

5.5 Information Technology and Computer Facility

5.5.1 The Core Hardware / Software and Maintenance

The current hardware of the core IT system contains IBM NTD transaction server, disk, foreign exchange transaction server, cryptosystem servers, and server group, and the software in service are IBM Z/VSE5.2 for core banking system and IBM iV7R1 for the foreign exchange system. The bank engage maintenance contracts with both systems.

5.5.2 Emergency Backup and Security Protection

Ⅰ. 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 and disk. The two cryptosystem servers are the backup for the cryptosystem systems of operation hardware.

Ⅱ. 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.

Ⅲ. The Bank entered into a remote backup contract with FISC, which requires us to conduct remote backup drills twice a year in IBM.

Ⅳ. Signed an agreement with IBM for NTD server, foreign exchange server and branches system disk drive asynchronous remote backup service. The updated data copies are stored in IBM backup room through fiber optic lines.

Ⅴ. 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.

5.6 Labor Relations

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

Ⅰ. 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.

Ⅱ. 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.

Ⅲ. 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.

Ⅳ. 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.

5.6.2 Loss Arising from Labor Disputes in the Past Two Years and Up to Mar. 2017：

In the dispute between the Bank and the Union over Article 35-1 of the Labor Union Act, the Ministry of Labor has imposed a penalty on the Bank. In response, the Bank's action is specified as below:

Ⅰ. Ruling of misconduct in labor action under Lao-Cai-Zi No. 58 in 2015: the Ministry of Labor imposed a fine of NT$30,000 and NT$60,000 on the Bank. The Bank filed an administrative litigation and appeal with the 2 counts of penalty revoked.

Ⅱ. Ruling of misconduct in labor action under Lao-Cai-Zi No.23 in 2016: the Ministry of Labor imposed a fine of NT$30,000 on the Bank. The Bank filed an admnistrative appeal to repeal the ruling. The action is still in process.

5.6.3 Action to Current and Potential Disputes that May Occur in the Future:

As of the end of March, 2017, there were 3 civil law suits, 2 adminstrative appeals, and 1 ruling of misconduct of labor action caused by the working conditions of the Bank. These cases are in the review process of the competent authority. The Bank seeks to justify its position as provied by law and will respond to subsequent judgments or rulings.

5.6.4 Violations Against the Labor Standards Act:

The Labor Affairs Bureau of the Kaohsiung City Government has conducted an examination on Wan Nei Branch of the Bank in April 2016, and held that the Bank has violated Article 24 of the Labor Standards Act during the exmination. A fine of NT$40,000 was imposed on the Bank.

5.7 Important Contracts

Mar. 31, 2017

Nature of Contract	Contracting Party	Duration of Contract	Major Contents	Restriction Clause
Outsourcing Contract	The bank and Financial Information Service Co., Ltd.	From : Dec. 01, 2008 To : Dec. 31, 2017	Credit card service	None
Outsourcing Contract	The bank and Hewlett-Packard Taiwan Ltd.	From : Apr. 01, 2014 To : Mar. 31, 2017	Data processing	None
Outsourcing Contract	The bank and An Feng Enterprise Corporation	From : Feb. 01, 2017 To : Jan. 31, 2018	ATM service	None
Outsourcing Contract	The bank and Li Pao Security Corporation	From : Feb. 01, 2017 To : Jan. 31, 2019	Cash escort service	None

Nature of Contract	Contracting Party	Duration of Contract	Major Contents	Restriction Clause
Outsourcing Contract	The bank and Li Pao Security Corporation	From : Feb. 01, 2017 To : Jan. 31, 2018	Cash delivery Service	None
Outsourcing Contract	The bank and Chunghwa Post Co., Ltd., Taipei Post Office.	From : Jan. 01, 2017 To : Dec. 31, 2018	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 , account statement of deposit and gold passbook.	None
Outsourcing Contract	The bank and CHUNG HWA Express Corp.	From : Dec. 17, 2016 To : Dec. 16, 2019	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 bank and TWMP Co., Ltd.	From : Dec. 16, 2014 To : Dec. 15, 2018	OTA card manufacturing of mobile payment instruments (credit card and IC ATM card) and data process service of managing card life cycle, and twMP digital wallet service.	None
Contract for the Kaohsiung City Government treasury	The bank and The Bureau of Finance of Kaohsiung City Government	From : Feb. 09, 2000 To : Jun. 30, 2020	The bank was entrusted to be the agent of Kaohsiung City Treasury	None
Contract for the national treasury	The bank and the Central Bank of China (CBC)	as of Feb. 01, 2011	The bank was entrusted to be the agent of the National Treasury	None
Contract for collection of Local tax	The bank and Bank of Taiwan	From : Jul. 01, 2010 To : Jun. 30, 2020	The bank was entrusted to be the collection agent of various tax payments levied by various municipal cities, counties/cities, townships/districts.	None
Contract for collection of national tax	The bank and the Central Bank of China (CBC)	as of Jul. 01, 2010	The bank was entrusted to be the collection agent of national tax.	None
Contract for Kaohsiung Municipal Treasury Business	The bank and 27 banks including Bank of Taiwan and Farmers' Association.	as of Jan. 01, 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 bank and Land Bank of Taiwan	as of Jul. 01, 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 bank and Taipei Fubon Bank	as of Jul. 01, 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 bank and 33 banks including Bank of Taiwan.	as of Jul. 01, 2010	The bank entrusted to be the collection agent of municipal tax, other income and fee of Kaohsiung City.	None
Contract for electronic payment	The bank and Kaohsiung City Government	From : Jan. 01, 2017 To : Dec. 31, 2020	The bank was entrusted to be the agent of electronic payment system of Kaohsiung City Treasury	None
Contract for collection of traffic fine	The bank and Transportation Bureau, Kaohsiung City Government	From : Jan. 01, 2017 To : Dec. 31, 2017	The bank was commissioned to close cases immediately upon collection of "traffic fine".	None
Contract for collection of vehicles fuel charge	The bank and Kaohsiung City Motor Vehicles Office	From : Jan. 01, 2017 To : Dec. 31, 2017	The bank was entrusted to collect for vehicle fuel charge.	None
Contract for district treasury	The bank and Kaohsiung Taoyuan District and 3 District Office	From : Jul. 01, 2015 To : Jun. 30, 2020	The bank was entrusted to be the collection agent of Kaohsiung Taoyuan District and 3 District Treasury.	None
Contract for Kaohsiung Taoyuan District and 3 District treasury	The bank and Kaohsiung Taoyuan District and Fengshan District Farmers' Association	From : Jul. 01, 2015 To : Jun. 30, 2020	The bank was entrusted to be the delegate agent of Kaohsiung Taoyuan District and 3 District Treasury.	None

5.8 Information on Securitization Products Issued in FY 2016 Permitted under "Financial Assets Securitization Provision" or "Real Estate Securitization Provision": None.

6.1 Brief Balance Sheets and Comprehensive Income Statements of Recent Five Years

6.1.1. Brief Balance Sheets and Comprehensive Income Statements

Ⅰ. Brief Balance Sheets (Consolidation)

Items \ FY		Financial Information of Recent Five Years				
		Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014 (re-compilation)	Dec. 31, 2015	Dec. 31, 2016
Cash & cash equivalents, Due from the CBC and other banks		27,802	26,549	27,279	18,353	14,567
Financial assets at fair value through profit or loss		1,459	1,590	10,976	3,880	3,986
Available-for-sale financial assets		19,191	19,250	26,141	36,837	31,298
Derivative financial assets for hedging		0	0	0	0	0
Bills and bonds purchased under agreements to resell		4,968	3,461	13,385	20,065	3,349
Accounts receivable－net		931	758	855	1,027	1,150
Current income tax assets		31	20	26	24	48
Assets held for sale－net		0	0	0	0	0
Discounts and loans－net		162,044	178,261	182,883	165,944	175,616
Held-to-Maturity financial assets		0	0	2,746	11,736	21,610
Equity method's investments－net		0	0	0	0	0
Restricted assets		0	0	0	0	0
Other financial assets－net		1,624	1,566	1,448	1,824	1,199
Property and equipment－net		2,758	2,744	2,979	2,945	2,907
Investment property－net		0	0	0	0	0
Intangible assets－net		50	41	65	69	67
Deferred income tax assets－net		142	134	173	230	193
Other assets－net		58	59	69	117	184
Total assets		221,058	234,433	269,025	263,051	256,174
Due to CBC and other banks		11,936	15,025	9,519	9,155	8,892
Funds borrowed from CBC & banks		0	0	0	0	0
Financial liabilities at fair value through profit or loss		1	6	23	20	1
Derivative financial liabilities for hedging		0	0	0	0	0
Bills and bonds sold under agreements to repurchase		69	68	61	1,071	1,102
Accounts payable		3,957	2,747	2,872	2,775	3,673
Current income tax liabilities		7	10	5	53	8
Liabilities directly related to assets held for sale		0	0	0	0	0
Deposits and remittances		189,455	198,690	236,928	229,740	225,470
Bonds payable		4,000	6,000	7,000	7,000	4,000
Liabilities of preferred stocks		0	0	0	0	0
Other financial liabilities		152	139	178	175	12
Provisions		756	855	968	1,036	426
Deferred income tax liabilities		0	0	0	0	0
Other liabilities		181	144	150	124	125
Total liabilities	Before distribution	210,514	223,684	257,704	251,149	243,709
	After distribution	210,516	223,693	257,693	251,138	－
Equity Attributable to Shareholders of the Parent						
Capital	Before distribution	7,069	7,210	7,404	7,789	8,232
	After distribution	7,210	7,404	7,789	8,232	－
Capital surplus	Before distribution	2,018	2,017	1,872	1,872	1,872
	After distribution	2,017	1,872	1,872	1,872	－
Retained earnings	Before distribution	1,354	1,608	2,028	2,214	2,404
	After distribution	1,212	1,550	1,654	1,782	－
Other equity		103	(86)	17	27	(43)
Treasury Stock		0	0	0	0	0
Non-controlling interests		0	0	0	0	0
Total equity	Before distribution	10,544	10,749	11,321	11,902	12,465
	After distribution	10,542	10,740	11,332	11,913	－

Note：1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2012~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for 2016.

2. The financial information for 2012~2013 was compiled in accordance with the "2010 Version of IFRS" recognized and announced by the Financial Supervisory Commission. The financial information in the quarterly report for Q1 2014~2016 was compiled in accordance with the "2013 Version of IFRS" recognized and announced by the Financial Supervisory Commission.

Ⅱ. Brief Balance Sheets (Individual)

Unit：NT$ Million

Items \ FY		Financial Information of Recent Five Years				
		Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014 (re-compilation)	Dec. 31, 2015	Dec. 31, 2016
Cash & cash equivalents, Due from the CBC and other banks		27,802	26,549	27,279	18,353	14,567
Financial assets at fair value through profit or loss		1,459	1,591	10,976	3,880	3,986
Available-for-sale financial assets		19,191	19,250	26,141	36,837	31,298
Derivative financial assets for hedging		0	0	0	0	0
Bills and bonds purchased under agreements to resell		4,968	3,461	13,385	20,065	3,349
Accounts receivable－net		943	769	866	1,048	1,159
Current income tax assets		31	20	26	24	48
Assets held for sale－net		0	0	0	0	0
Discounts and loans－net		162,044	178,261	182,883	165,944	175,616
Held-to-Maturity financial assets		0	0	2,746	11,736	21,610
Equity method's investments－net		79	59	61	71	82
Restricted assets		0	0	0	0	0
Other financial assets－net		1,624	1,566	1,448	1,824	1,199
Property and equipment－net		2,758	2,744	2,978	2,945	2,907
Investment property－net		0	0	0	0	0
Intangible assets－net		50	41	64	68	67
Deferred income tax assets－net		142	134	173	230	193
Other assets－net		55	57	67	115	182
Total assets		221,146	234,502	269,093	263,140	256,263
Due to CBC and other banks		11,936	15,025	9,519	9,155	8,892
Funds borrowed from CBC & banks		0	0	0	0	0
Financial liabilities at fair value through profit or loss		1	6	23	20	1
Derivative financial liabilities for hedging		0	0	0	0	0
Bills and bonds sold under agreements to repurchase		69	68	61	1,071	1,102
Accounts payable		3,954	2,744	2,864	2,767	3,663
Current income tax liabilities		1	6	0	46	0
Liabilities directly related to assets held for sale		0	0	0	0	0
Deposits and remittances		189,552	198,765	237,009	229,844	225,577
Bonds payable		4,000	6,000	7,000	7,000	4,000
Liabilities of preferred stocks		0	0	0	0	0
Other financial liabilities		152	139	178	175	12
Provisions		756	855	968	1,036	426
Deferred income tax liabilities		0	0	0	0	0
Other liabilities		181	145	150	124	125
Total liabilities	Before distribution	210,602	223,753	257,772	251,238	243,798
	After distribution	210,604	223,762	257,761	251,227	－
Equity Attributable to Shareholders of the Parent						
Capital	Before distribution	7,069	7,210	7,404	7,789	8,232
	After distribution	7,210	7,404	7,789	8,232	－
Capital surplus	Before distribution	2,018	2,017	1,872	1,872	1,872
	After distribution	2,017	1,872	1,872	1,872	－
Retained earnings	Before distribution	1,354	1,608	2,028	2,214	2,404
	After distribution	1,212	1,550	1,654	1,782	－
Other equity		103	(86)	17	27	(43)
Treasury Stock		0	0	0	0	0
Total equity	Before distribution	10,544	10,749	11,321	11,902	12,465
	After distribution	10,542	10,740	11,332	11,913	－

Note：1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2012~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for 2016.

2. The financial information for 2012~2013 was compiled in accordance with the "2010 Version of IFRS" recognized and announced by the Financial Supervisory Commission. The financial information in the quarterly report for Q1 2014~2016 was compiled in accordance with the "2013 Version of IFRS" recognized and announced by the Financial Supervisory Commission.

Ⅲ. Brief Statements of Comprehensive Income (Consolidation)

Unit：NT$ Million

Items \ FY	Financial Information of Recent Five Years				
	2012	2013	2014 (re-compilation)	2015	2016
Interest income	3,990	4,159	4,614	4,780	4,402
Less: Interest expenses	(1,884)	(1,890)	(2,146)	(2,298)	(1,879)
Net interest income	2,106	2,269	2,468	2,482	2,523
Net revenues other than interest	602	668	932	833	841
Net revenue	2,708	2,937	3,400	3,315	3,364
Allowance for credit loss and loss on guarantees	(261)	(401)	(691)	(371)	(365)
Operating expenses	(2,009)	(2,057)	(2,199)	(2,291)	(2,294)
Income before tax－operating department	438	479	510	653	705
Income tax (expense) benefit	20	(60)	(1)	(62)	(57)
Net income－operating department	458	419	509	591	648
Net income－non-operating department	0	0	0	0	0
Net income (loss)	458	419	509	591	648
Other comprehensive income for the period(net of income tax)	142	(212)	81	(21)	(96)
Total comprehensive income for the period	600	207	590	570	552
Net income attributable to: Shareholders of the parent	458	419	509	591	648
Net income attributable to: Minority interest	0	0	0	0	0
Total comprehensive income for the period attributable to: Shareholders of the parent	600	207	590	570	552
Total comprehensive income for the period attributable to: Minority interest	0	0	0	0	0
Earnings per share	0.64	0.57	0.66	0.72	0.79

Note：1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2012~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for 2016.
2. The financial information for 2012~2013 was compiled in accordance with the "2010 Version of IFRS" recognized and announced by the Financial Supervisory Commission. The financial information in the quarterly report for Q1 2014~2016 was compiled in accordance with the "2013 Version of IFRS" recognized and announced by the Financial Supervisory Commission.

Ⅳ. Brief Statements of Comprehensive Income (Individual)

Unit：NT$ Million

Items \ FY	Financial Information of Recent Five Years				
	2012	2013	2014 (re-compilation)	2015	2016
Interest income	3,990	4,159	4,614	4,780	4,402
Less: Interest expenses	(1,884)	(1,890)	(2,146)	(2,299)	(1,880)
Net interest income	2,106	2,269	2,468	2,481	2,522
Net revenues other than interest	581	645	897	783	788
Net revenue	2,687	2,914	3,365	3,264	3,310
Allowance for credit loss and loss on guarantees	(261)	(401)	(691)	(371)	(365)
Operating expenses	(1,998)	(2,043)	(2,174)	(2,252)	(2,254)
Income before tax－operating department	428	470	500	641	691
Income tax (expense) benefit	30	(51)	8	(50)	(43)
Net income－operating department	458	419	508	591	648
Net income－non-operating department	0	0	0	0	0
Net income (loss)	458	419	508	591	648
Other comprehensive income for the period(net of income tax)	142	(212)	82	(21)	(96)
Total comprehensive income for the period	600	207	590	570	552
Earnings per share	0.64	0.57	0.66	0.76	0.79

Note：1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2012~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for 2016.
2. The financial information for 2012~2013 was compiled in accordance with the "2010 Version of IFRS" recognized and announced by the Financial Supervisory Commission. The financial information in the quarterly report for Q1 2014~2016 was compiled in accordance with the "2013 Version of IFRS" recognized and announced by the Financial Supervisory Commission.

6.2 Financial Analysis of Recent Five Years

6.2.1 Financial Analysis

Ⅰ. Financial Analysis (Consolidation)

Unit：NT$ Million

Items \ FY		Financial Analysis of Recent Five Years				
		2012	2013	2014 (re-compilation)	2015	2016
Operating Ability	Loans to deposits ratio (%)	85.79	89.97	77.68	72.95	78.65
	Ratio of NPL (%)	0.85	0.60	0.45	0.48	0.45
	Interest expenses to average deposit balances (%)	0.88	0.85	0.84	0.84	0.73
	Interest income to average loan balances (%)	2.08	2.15	2.23	2.27	2.13
	Total assets turnover ratio (times)	0.01	0.01	0.01	0.01	0.01
	Operating revenue per employee	2.86	3.06	3.58	3.50	3.57
	Earnings per employee	0.48	0.44	0.54	0.62	0.69
Profitability	Return on tier 1 capital (%)	–	4.75	4.91	5.98	6.14
	Return on total assets (%)	0.21	0.18	0.20	0.22	0.25
	Return on equity	4.47	3.94	4.61	5.09	5.32
	Net profit margin (%)	16.92	14.27	14.96	17.84	19.27
	Earnings per share (NT$)	0.64	0.57	0.66	0.72	0.79
Financial Structure	Liabilities to assets ratio (%)	95.23	95.41	95.76	95.44	95.11
	Property, plant, and equipment as a percentage of equity (%)	26.16	25.53	26.31	24.75	23.32
Growth Rate	Asset growth rate (%)	–	6.05	14.76	(2.22)	(2.61)
	Earnings growth rate (%)	–	9.31	6.38	28.17	7.92
Cash Flow	Cash flow ratio (%)	Explanation	Explanation	87.10	–	–
	Cash flow adequacy ratio (%)	–	–	2,331.83	1,022.91	–
	Cash flow satisfied ratio (%)	Explanation	Explanation	4,939.84	–	–
Liquidity Reserve Ratio (%)		16.79	15.90	24.29	28.84	19.22
Total Secured Loans to Related Parties		1,063	1,069	910	1,387	1,359
Total Secured Loans to Related Parties as a Percentage of Total Loans (%)		0.62	0.58	0.47	0.80	0.746
Operating Scale	Asset market share (%)	0.56	0.54	0.57	0.54	0.51
	Equity market share (%)	0.43	0.39	0.37	0.36	0.36
	Deposit market share (%)	0.64	0.63	0.70	0.64	0.60
	Loan market share (%)	0.69	0.72	0.70	0.62	0.64

Reasons for the changes in financial ratios over the last two years:
Profitability growth in 2016 was 20.25% lower than in 2015 or a decline of 71.88% mainly because of the requirement of the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" enacted on January 28, 2014 that 1% of the outstanding balance of Category One credit asset's claim (excluding assets that represent claims against the central and local government in Taiwan)caused a substantial increase of the expense on bad debts in 2014, to the extent that the profitability growth ratio in 2015 increased accordingly.

Explanation：Cash flow from operating activities was a net outflow in 2012, 2013 ,2015and 2016.

Note：1. The financial information listed above audited by the bank's independent auditors, Please refer to page 57 Note 1.

2. The aforementioned ratios are calculated as follows：Please refer to page 57 Note 2.

Ⅱ. Financial Analysis (Individual)

Unit：NT$ Million

Items	FY	2012	2013	2014 (re-compilation)	2015	2016
		Financial Analysis of Recent Five Years				
Operating Ability	Loans to deposits ratio (%)	85.79	89.97	77.68	72.95	78.65
	Ratio of NPL (%)	0.85	0.60	0.45	0.48	0.45
	Interest expenses to average deposit balances (%)	0.88	0.85	0.84	0.84	0.73
	Interest income to average loan balances (%)	2.08	2.15	2.23	2.27	2.13
	Total assets turnover ratio (times)	0.01	0.01	0.01	0.01	0.01
	Operating revenue per employee	2.85	3.06	3.58	3.47	3.54
	Earnings per employee	0.49	0.44	0.54	0.63	0.69
Profitability	Return on tier 1 capital (%)	4.35	4.67	4.83	5.89	6.04
	Return on total assets (%)	0.21	0.18	0.20	0.22	0.25
	Return on equity	4.47	3.94	4.61	5.09	5.32
	Net profit margin (%)	17.06	14.38	15.11	18.12	19.59
	Earnings per share (NT$)	0.64	0.57	0.66	0.72	0.79
Financial Structure	Liabilities to assets ratio (%)	95.23	95.42	95.76	95.45	95.11
	Property, plant, and equipment as a percentage of equity (%)	26.15	25.52	26.31	24.75	23.32
Growth Rate	Asset growth rate (%)	(1.22)	6.04	14.75	(2.21)	(2.61)
	Earnings growth rate (%)	—	9.76	6.46	28.29	7.75
Cash Flow	Cash flow ratio (%)	Explanation	Explanation	87.16	Explanation	Explanation
	Cash flow adequacy ratio (%)	—	—	2,337.68	1,024.76	—
	Cash flow satisfied ratio (%)	Explanation	Explanation	4,943.46	Explanation	Explanation
Liquidity Reserve Ratio (%)		16.79	15.90	24.29	28.84	19.22
Total Secured Loans to Related Parties		1,063	1,069	910	1,387	1,359
Total Secured Loans to Related Parties as a Percentage of Total Loans (%)		0.62	0.58	0.47	0.80	0.746
Operating Scale	Asset market share (%)	0.56	0.54	0.57	0.54	0.51
	Equity market share (%)	0.43	0.39	0.37	0.36	0.36
	Deposit market share (%)	0.64	0.63	0.70	0.64	0.60
	Loan market share (%)	0.69	0.72	0.70	0.62	0.64

Explanation：Cash flow from operating activities was a net outflow in 2012, 2013, 2015 and 2016.

Note：1. The above financial information, in addition to the Operating Scale, 2012 to 2016 for the CPA visa data by an accounting Scrutiny.

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, Chinese mainland bank branches in Taiwan, 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.

6.2.2 Adequacy of Capital

Ⅰ. Adequacy of Capital (Consolidation)

Unit：NT$ Thousand

Items			Adequacy Capital of Recent Four Years (FY) Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016
Equity Capital	Common Stocks Equity		10,100,154	10,652,950	11,196,125	11,764,282
	Other Tier I Capital		—	—	—	—
	Tier II capital		3,665,056	5,697,928	4,901,827	4,070,966
	Equity Capital		13,765,210	16,350,878	16,097,952	15,835,248
Total Weighted Average Risk Assets	Credit Risk	Standardized Approach	137,615,003	154,917,501	148,290,347	153,148,703
		Internal Rating Based Approach (IRB)	—	—	—	—
		Asset Securitization	1,772,752	832,647	26,252	—
	Operational Risk	Basic Indicator Approach (BIA)	4,941,919	5,419,853	5,803,908	6,072,970
		Standardized Approach / Alternative Standardized Approach	—	—	—	—
		Advanced Measurement Approach	—	—	—	—
	Market Risk	Standardized Approach	3,177,928	4,913,197	4,383,324	2,604,740
		Internal Model Approach	—	—	—	—
	Total Weighted Average Risk Assets		147,507,602	166,083,198	158,503,831	161,826,413
Capital Adequacy Ratio (%)			9.33%	9.84%	10.16%	9.79%
Tier 1 Capital to Risk Assets Ratio (%)			6.85%	6.41%	7.06%	7.27%
Common Stock Equity to Risk Assets Ratio (%)			6.85%	6.41%	7.06%	7.27%
Leverage Ratio (%)			3.21%	3.08%	4.04%	4.40%
Reasons for changes of capital adequacy ratios for the last two years: None.						

Note：1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2012~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for 2016.
2. The aforementioned ratios are calculated as follows
(1) Equity capital＝common stock equity + other Tier I capital + Tier II capital.
(2) Total weighted average risk assets＝credit risk weighted average risk assets + provision of (operation risk + market risk) capital x 12.5.
(3) Capital adequacy ratio＝equity capital / total weighted average risk assets
(4) Common stock equity to risk assets ratio＝common stock equity / total weighted average risk assets
(5) Tier I capital to risk assets ration＝(common stock equity + other Tier I capital) / total weighted average risk assets
(6) Leverage ratio＝Tier I capital / total risk exposure

Ⅱ. Adequacy of Capital (Individual)

Unit：NT$ Thousand

Items			Adequacy Capital of Recent Four Years (FY) Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016
Equity Capital	Common Stocks Equity		10,070,584	10,622,652	11,160,671	11,723,280
	Other Tier I Capital		—	—	—	—
	Tier II capital		3,635,375	5,667,630	4,866,313	4,029,930
	Equity Capital		13,705,959	16,290,282	16,026,984	15,753,210
Total Weighted Average Risk Assets	Credit Risk	Standardized Approach	137,624,108	154,925,078	148,308,781	153,154,875
		Internal Rating Based Approach (IRB)	—	—	—	—
		Asset Securitization	1,772,752	832,647	26,252	—
	Operational Risk	Basic Indicator Approach (BIA)	4,907,761	5,378,268	5,764,427	6,032,467
		Standardized Approach / Alternative Standardized Approach	—	—	—	—
		Advanced Measurement Approach	—	—	—	—
	Market Risk	Standardized Approach	3,177,928	4,913,197	4,383,324	2,604,740
		Internal Model Approach	—	—	—	—
	Total Weighted Average Risk Assets		147,482,548	166,049,190	158,482,784	161,792,082
Capital Adequacy Ratio (%)			9.29%	9.81%	10.11%	9.74%
Tier 1 Capital to Risk Assets Ratio (%)			6.83%	6.40%	7.04%	7.25%
Common Stock Equity to Risk Assets Ratio (%)			6.83%	6.40%	7.04%	7.25%
Leverage Ratio (%)			3.21%	3.07%	4.03%	4.38%

Note：1. The financial information listed above has been audited by the CPAs Shu-Man Tsai and Ling-Wen Huang. Auditors' opinion: Unqualified opinion for FY 2012~2015. The financial information listed above has been reviewed by the CPAs Jen-Yao Hsieh and Ping-Chang Su for 2016.
2. The aforementioned ratios are calculated as follows
(1) Equity capital＝common stock equity + other Tier I capital + Tier II capital.
(2) Total weighted average risk assets＝credit risk weighted average risk assets + provision of (operation risk + market risk) capital x 12.5.
(3) Capital adequacy ratio＝equity capital / total weighted average risk assets
(4) Common stock equity to risk assets ratio＝common stock equity / total weighted average risk assets
(5) Tier I capital to risk assets ration＝(common stock equity + other Tier I capital) / total weighted average risk assets
(6) Leverage ratio＝Tier I capital / total risk exposure

Ⅲ. Adequacy of Capital (Individual) under ROC GAAP

Unit：NT$ Million

Items		FY	Adequacy Capital of 2010~2012		
			Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012
Self-Owned Capital	Tier 1 capital	Common stocks	5,258	7,069	7,069
		Perpetual non-cumulative preferred stock	0	0	0
		Non-cumulative subordinated debentures without maturity dates	0	0	0
		Capital in advance	0	0	0
		Capital surplus (Apart from fixed asset appreciation surplus)	2,542	2,018	2,018
		Legal earnings reserve	1,605	1,643	1,278
		Special earnings reserve	25	42	0
		Accumulated earnings	156	(407)	386
		Minor equity	0	0	0
		Other stockholder's equity	(61)	(37)	(20)
		Less：goodwill	0	0	0
		Less：unamortized loss on sale of bad credit	0	0	0
		Less：capital deduct item	1,027	715	681
		Total tier 1 capital	8,498	9,614	10,050
	Tier 2 capital	Perpetual cumulative preferred stock	0	0	0
		Cumulative subordinated debentures without maturity dates	0	0	0
		Fixed asset appreciation surplus	0	0	0
		45% of the unrealized income from financial assets in available-for-sale	15	16	78
		Convertible bonds	0	0	0
		Business reserve and provision for credit loss	235	779	828
		Long term subordinate bonds	3,600	2,800	2,000
		Non-perpetual preferred stock	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
		Less：capital deduct item	1,027	715	681
		Total tier 2 capital	2,823	2,880	2,225
	Tier 3 capital	Short term subordinate bonds	0	0	0
		Non-perpetual preferred stock	0	0	0
		Total tier 3 capital	0	0	0
	Capital		11,322	12,494	12,275
Total Weighted Risk Assets	Credit risks	Standardized approach	112,516	119,355	120,795
		Internal rating based approach (IRB)	0	0	0
		Asset securitization	870	613	594
	Operational risks	Basic indicator approach (BIA)	4,190	4,048	4,606
		Standardized approach / Optional Standardized approach	0	0	0
		Advanced approach	0	0	0
	Market risks	Standardized approach	2,910	3,064	3,876
		Internal model approach	0	0	0
	Risk weighted assets		120,486	127,080	129,871
Capital Adequacy Ratio (%)			9.40	9.83	9.45
Tier 1 Capital to Risk Assets Ratio (%)			7.05	7.57	7.74
Tier 2 Capital to Risk Assets Ratio (%)			2.35	2.27	1.71
Tier 3 Capital to Risk Assets Ratio (%)			0.00	0.00	0.00
Common stock's equities as a percentage of total assets (%)			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.

Ⅳ. Adequacy of Capital (Consolidation) under ROC GAAP

Unit：NT$ Million

Items		FY	Adequacy Capital of 2010~2012		
			Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012
Self-Owned Capital	Tier 1 capital	Common stocks	5,258	7,069	7,069
		Perpetual non-cumulative preferred stock	0	0	0
		Non-cumulative subordinated debentures without maturity dates	0	0	0
		Capital in advance	0	0	0
		Capital surplus (Apart from fixed asset appreciation surplus)	2,542	2,018	2,018
		Legal earnings reserve	1,605	1,643	1,278
		Special earnings reserve	25	42	0
		Accumulated earnings	156	(407)	386
		Minor equity	0	0	0
		Other stockholder's equity	(61)	(37)	(20)
		Less：goodwill	0	0	0
		Less：unamortized loss on sale of bad credit	0	0	0
		Less：capital deduct item	999	683	642
		Total tier 1 capital	8,526	9,645	10,090
	Tier 2 capital	Perpetual cumulative preferred stock	0	0	0
		Cumulative subordinated debentures without maturity dates	0	0	0
		Fixed asset appreciation surplus	0	0	0
		45% of the unrealized income from financial assets in available-for-sale	15	16	79
		Convertible bonds	0	0	0
		Business reserve and provision for credit loss	235	779	828
		Long term subordinate bonds	3,600	2,800	2,000
		Non-perpetual preferred stock	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
		Less：capital deduct item	999	683	642
		Total tier 2 capital	2,851	2,911	2,265
	Tier 3 capital	Short term subordinate bonds	0	0	0
		Non-perpetual preferred stock	0	0	0
		Total tier 3 capital	0	0	0
	Capital		11,377	12,557	12,354
Total Weighted Risk Assets	Credit risks	Standardized approach	112,503	119,345	120,786
		Internal rating based approach (IRB)	0	0	0
		Asset securitization	870	613	594
	Operational risks	Basic indicator approach (BIA)	4,209	4,068	4,632
		Standardized approach / Optional Standardized approach	0	0	0
		Advanced approach	0	0	0
	Market risks	Standardized approach	2,910	3,064	3,876
		Internal model approach	0	0	0
	Risk weighted assets		120,492	127,090	129,889
Capital Adequacy Ratio (%)			9.44	9.88	9.51
Tier 1 Capital to Risk Assets Ratio (%)			7.08	7.59	7.77
Tier 2 Capital to Risk Assets Ratio (%)			2.36	2.29	1.74
Tier 3 Capital to Risk Assets Ratio (%)			0.00	0.00	0.00
Common stock's equities as a percentage of total assets (%)			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 Audit Committee's Audit Report on the Financial Statements of Recent Years

Audit Committee's Report for Bank of Kaohsiung

Mar.16, 2017

The Board of Directors has prepared the business report, financial statements, and earnings distribution for year 2016. Among these, Crowe Horwath (TW) CPAs has audited the financial statements and issued an audit report. We, the Audit Committee, have reviewed said business report, financial statements, and earnings distribution. We believe that these statements comply with applicable regulations. This report is duly submitted pursuant to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, and we hereby submit this report.

Regard to

Regular Shareholders' Meeting of the Bank of Kaohsiung

Audit Committee's

Independent Director : Mei-Yueh Ho

Independent Director : Wen-Yuan Lin

Independent Director : Tzen-Ping Su

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

6.4 Financial Report for FY 2016

Crowe Horwath (TW) CPAs

Member Crowe Horwath International

27F.-1, No.6, Siwei 3rd Rd.,
Lingya Dist., Kaohsiung
City, Taiwan, R.O.C.
TEL：886 7 3312133
FAX：886 7 3331710

Report of Independent Auditors

Opinion

We have audited the consolidated balance sheets of the Bank of Kaohsiung Co., Ltd. (BOK) and its subsidiaries prepared on December 31 2016 and December 31 2015, and the consolidated income statements, consolidated statements of change in equity and consolidated statements of cash flow and notes to consolidated financial statements (including significant accounting policies) covering the period of 2016 and 2015, until December 31 of respective fiscal years.

In our opinion, the financial statements as referred to present fairly, in all material aspects, the financial position of Bank of Kaohsiung Co., Ltd. and subsidiaries as of December 31 2016 and December 31 2015, and the results of its operations and cash flows for the years then ended in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and applicable IFRS, IAS, SIC, and IFRIC as recognized by the Financial Supervisory Commission .

Basis of opinion

We have conducted the audit in accordance with the Criteria for Certified Public Accountants in the Auditing of Financial Statements Compiled by Financial Firms and the accounting principle generally accepted in the Republic of China. Our responsibilities under those standards are further described in the responsibilities of auditors for the audit of the consolidated financial statements. We are independent of Bank of Kaohsiung Co., Ltd. and its subsidiaries in accordance with the Code of Ethics for certified public accountants in the part of relevant to the audit of the consolidated financial statements of Bank of Kaohsiung and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believed that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

Key audit matters are those matters that, in our professional judgment, were most significant in our audit of the consolidated statements of Bank of Kaohsiung in 2016. These matters were addressed in the content of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters. Emphasis of matters of the consolidated financial statements of Bank of Kaohsiung and subsidiaries in 2016 included:

1. Impairment of Loan Assets

The net Discount and Loans of BOK and subsidiaries as stated in the Consolidated Balance Sheet dated December 31 2016 amounted to TWD 175,615,779 thousand (net of Allowance for Doubtful Accounts to TWD 2,034,342 thousand). Refer to Note 5 and Note 6 (7) of the notes to consolidated financial statements. The unstable domestic and international economic situation led to increasing risk from lending and recovery of account receivable. The recognition of impairment involves the significant decision-making of the management. We therefore specified this is an emphasis of matter.

We have examined the aforementioned matters in accordance with key audit procedures, which include: acquisition of the detailed information on NPL, loans for collection, and other loans with possible impairment under objective evidence and account receivables, and examined if the classification of loan assets has been properly done and missing of overdue loans in the listing. For loans and receivables implicated by objective evidence as impaired, we examined if the amounts of impairment estimated are reasonable. Financial assets without objective evidence implicating impairment and of an insignificant amount is obligated to be classified on the basis of similar attribute of credit risk (such as, by asset category, industry, type of guarantee, state of delinquency, and other relevant factors as the basis of classification) and evaluate the assets in grouping for assessing if the impairment so recognized is reasonable.

2. Evaluation of Impairment of Financial Assets

As shown in the consolidated balance sheet of BOK and subsidiaries dated December 31 2016, Available-for-sale financial assets amounted to TWD 31,298,076 thousand, financial assets Held-to-maturity amounted to TWD 21,609,828 thousand and Financial assets measured at cost (stated as other financial assets in the books) amounted to TWD 1,161,567 thousand. Signs of impairment of these assets must be assessed. If there is sign of impairment applicable to any of these assets, evaluate the recoverable amount of the assets as the calculation of the recoverable amount involves a number of assumption and estimates and the method will directly affect the amount recognized for impairment. Therefore, we determined this is an emphasis of matter.

We have examined the aforementioned matters in accordance with key audit procedures, which include: acquisition of the asset impairment evaluation sheet prepared by BOK, evaluation if the assumption of the management is appropriate and reasonable on the identification of the signs of impairment .

Other Information

Bank of Kaohsiung has prepared standalone financial statements for the years ended December 31 2016 and December 31 2015. We have issued unqualified opinions on our audits on these statements.

Responsibilities of Management and Those in Charge with Governance of the Consolidated Financial Statements

The Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and applicable IFRS, IAS, SIC, and IFRIC as recognized by the Financial Supervisory Commission, and for such internal control as the management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the ability of BOK and its subsidiaries as a going concern, disclosing, as applicable, matters related to going concerns and using the going concern basis of accounting unless the management either intends to liquidate Bank of Kaohsiung and its subsidiaries or to create operations, or has no realistic alternative but to do so.

Those in charge of governance (including the Auditing Committee) are responsible for overseeing the reporting process of Bank of Kaohsiung and its subsidiaries.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the accounting principles generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. If fraud or errors are considered material, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the accounting principles generally accepted in the Republic of China, we have exercised professional judgment and maintained a professional skepticism throughout the audit. We have also performed the following duties:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design, and performed audit procedures responsive risks, and the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control effective in Bank of Kaohsiung and subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonability of accounting estimates and related disclosures made by the management.
4. Conclude the appropriateness of the use of the going concern basis of accounting by the management, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Bank of Kaohsiung and subsidiaries and its ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosure is inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause Bank of Kaohsiung and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure, and content of the consolidated statements, including the disclosures, whether the consolidated statements represent the underlying transactions and events in a matter that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information or the entities or business activities with Bank of Kaohsiung and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit of Bank of Kaohsiung and subsidiaries. We remain solely responsible for our audit opinion.

We communicate with those in charge of governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings (including any significant deficiencies in internal control that we identify during our audit).

We also provide those in charge of governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, (related safeguards).

From the matters communicated with those in charge of governance, we determine those emphasis audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Crowe Horwath (TW) CPAs

CPA：Jen-Yao Hsieh

Hsieh JEN YAO

CPA：Ping-Chang Su

Su Ping Chang

Republic of China Mar. 16, 2017

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, 2016 AND 2015

Unit：NT$ Thousand

A/C No.	ASSETS Accounts	Note	December 31, 2016 Amount	%	December 31, 2015 Amount	%
11000	Cash & cash equivalents	6.1	$3,992,115	2	$3,384,503	1
11500	Due from the Central Bank of China and other banks	6.2	10,574,542	4	14,968,151	6
12000	Financial assets at fair value through profit or loss	6.3	3,986,251	2	3,880,449	1
14000	Available-for-sale financial assets, net	6.4	31,298,076	12	36,836,691	14
12500	Bills and bonds purchased under agreements to resell	6.5	3,349,155	1	20,065,435	8
13000	Accounts receivable, net	6.6	1,149,528	—	1,026,959	—
13200	Income tax assets		48,251	—	23,593	—
13500	Discounts and loans, net	6.7	175,615,779	70	165,943,918	64
14500	Held-to-Maturity financial assets, net	6.8	21,609,828	8	11,736,176	4
15500	Other financial assets, net	6.10	1,199,328	—	1,824,398	1
18500	Property and equipment, net	6.11	2,907,253	1	2,945,352	1
19000	Intangible assets, net	6.12	66,674	—	68,405	—
19300	Deferred income tax assets, net	6.37	193,307	—	229,888	—
19500	Other assets, net	6.13	184,233	—	116,757	—
10000	**TOTAL**		$256,174,320	100	$263,050,675	100

A/C No.	LIABILITIES AND SHAREHOLDERS' EQUITY Accounts	Note	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	LIABILITIES					
21000	Due to Central Bank of China and other banks	6.14	$8,892,284	3	$9,155,382	3
22000	Financial liabilities at fair value through profit or loss	6.15	1,349	—	19,754	—
22500	Bills and bonds sold under agreements to repurchase	6.16	1,101,523	—	1,071,084	—
23000	Accounts payable	6.17	3,673,012	1	2,775,112	1
23200	Income tax liabilities		7,768	—	52,605	—
23500	Deposits and remittances	6.18	225,470,045	89	229,739,869	88
24000	Bank debentures	6.19	4,000,000	2	7,000,000	3
25500	Other financial liabilities	6.20	12,221	—	175,385	—
25600	Provisions	6.21	426,018	—	1,036,043	—
29500	Other liabilities	6.22	125,066	—	123,698	—
20000	**Total liabilities**		243,709,286	95	251,148,932	95
	SHAREHOLDERS' EQUITY					
31000	Equity Attributable Shareholders of the Parent Company					
31101	Ordinary share	6.23	8,232,238	3	7,788,659	3
31500	Capital surplus	6.23	1,872,395	1	1,872,395	1
32000	Retained earnings					
32001	Legal reserve	6.23	1,783,631	1	1,606,232	1
32005	Unappropriated earnings	6.24	620,704	—	607,376	—
	Total retained earnings		2,404,335	1	2,213,608	1
32500	Other equity	6.23	(43,934)	—	27,081	—
30000	**Total equity**		12,465,034	5	11,901,743	5
	TOTAL		$256,174,320	100	$263,050,675	100

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

Chairman：Chen-Cheng Chien　　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, 2016 AND 2015

Unit：NT$ Thousand

A/C No.	Accounts	Note	2016 Amount	2016 %	2015 Amount	2015 %	Change%
41000	Interest income		$4,401,671	131	$4,780,347	145	(8)
51000	Less: Interest expenses		(1,879,064)	(56)	(2,298,356)	(69)	(18)
49010	Net interest income	6.25	2,522,607	75	2,481,991	76	2
	Net Revenues Other Than Interest						
49100	Commission and fee revenues, net	6.26	$571,752	16	$538,198	16	6
49200	Gain or loss on financial assets and liabilities at fair value through profit or loss	6.27	116,497	3	(71,940)	(2)	262
49300	Realized gain(loss) on available-for-sale financial assets	6.28	57,648	2	13,849	—	316
49400	Realized gain (loss) of held-to-maturity financial assets	6.8	(2,375)	—	28,564	1	(108)
49600	Foreign exchange gain (loss)	6.29	(13,531)	—	233,654	7	(106)
49700	Reversal of impairment loss on assets	6.30	—	—	(23,586)	(1)	(100)
49800	Other net non-interest income						
49805	Net gain or loss of financial assets measured at cost	6.31	59,745	2	54,030	2	11
49813	Net investing gain or loss on debt investments without active market	6.32	—	—	10,606	—	(100)
49899	Other miscellaneous incomes (loss)	6.33	51,285	2	49,238	1	4
	Net revenue		3,363,628	100	3,314,604	100	1
58200	Allowance for credit loss and loss on guarantees	6.7	(364,479)	(11)	(370,586)	(11)	(2)
58400	Operating expenses						
58500	Employee benefits expenses	6.34	(1,477,355)	(44)	(1,482,621)	(45)	—
59000	Depreciation expenses and amortization	6.35	(82,945)	(3)	(81,507)	(3)	2
59500	Other business and administrative expenses	6.36	(733,853)	(22)	(726,626)	(22)	1
61001	Net income (loss) from continuing operations before income tax		704,996	20	653,264	19	8
61003	Income tax (expense) benefit	6.37	(56,692)	(2)	(61,933)	(2)	(8)
64000	Net income (loss)		648,304	18	591,331	17	10
	Other comprehensive income:						
	Items not classified as income						
65201	Reevaluation value of determined benefit plan		(29,989)	(1)	(38,181)	(1)	(21)
65220	Income tax benefit (expense) related to items without reclassification		5,098	—	6,490	—	(21)
	Items subject to subsequent reclassification as incomes						
65301	Exchange difference from conversion of financial statements of overseas operation segments		298	—	(23,874)	(1)	101
65302	Unrealized evaluation gain (loss) of financial assets available for sale		(71,262)	(2)	30,360	1	(335)
65320	Income tax benefit (expense) related to items subject to subsequent classification		(51)	—	4,059	—	(101)
65000	**Other comprehensive income for the period, net of income tax**	6.38	(95,906)	(2)	(21,146)	(1)	354
66000	**Total Comprehensive Income For The Period**		$552,398	16	$570,185	16	(3)
	Net income (loss) attributable to:						
	Shareholders of the parent		$648,304	18	$591,331	17	10
	Minority interest		—	—	—	—	—
			$648,304	18	$591,331	17	10
	Total comprehensive income for the period attributable to:						
	Shareholders of the parent		$552,398	16	$570,185	16	(3)
	Minority interest		—	—	—	—	—
			$552,398	16	$570,185	16	(3)
	Earnings per share (NT$):						
67500	Basic earnings per share	6.39	$0.79		$0.72		
67700	Diluted earnings per share	6.39	$0.78		$0.72		

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

Chairman： Chen-Cheng Chien　　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, 2016 AND 2015

Unit：NT$ Thousand

Items	Equity Attributable Shareholders of Parent Company									Total Equity
			Retained Earnings			Other Equity				
	Capital Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences On Translating The Financial Statements Of Foreign Operations	Unrealized Gain/loss of Available-for-sale Financial Assets	Other	Subtotal	
BALANCE, JANUARY 1, 2015	$7,403,514	$1,872,395	$1,458,030	$86,057	$484,322	$19,744	($3,429)	$406	$16,721	$11,321,039
Employee stock dividend	37,180	–	–	–	(4,276)	–	–	–	–	32,904
Appropriation of prior year's earnings:										
Legal reserve	–	–	148,202	–	(148,202)	–	–	–	–	–
Reversal of special reserve	–	–	–	(86,057)	86,057	–	–	–	–	–
Cash dividends	–	–	–	–	(22,200)	–	–	–	–	(22,200)
Capital increase by capitalization of earnings	347,965	–	–	–	(347,965)	–	–	–	–	–
Net income (loss)	–	–	–	–	591,331	–	–	–	–	591,331
Other comprehensive income for the period	–	–	–	–	(31,691)	(19,815)	30,360	–	10,545	(21,146)
Total comprehensive income for the period	–	–	–	–	559,640	(19,815)	30,360	–	10,545	570,185
Other	–	–	–	–	–	–	–	(185)	(185)	(185)
BALANCE, DECEMBER 31, 2015	7,788,659	1,872,395	1,606,232	–	607,376	(71)	26,931	221	27,081	11,901,743
Employee stock dividend	38,569	–	–	–	(4,320)	–	–	–	–	34,249
Appropriation of prior year's earnings:										
Legal reserve	–	–	177,399	–	(177,399)	–	–	–	–	–
Cash dividends	–	–	–	–	(23,356)	–	–	–	–	(23,356)
Capital increase by capitalization of earnings	405,010	–	–	–	(405,010)	–	–	–	–	–
Net income (loss)	–	–	–	–	648,304	–	–	–	–	648,304
Other comprehensive income for the period	–	–	–	–	(24,891)	247	(71,262)	–	(71,015)	(95,906)
Total comprehensive income for the period	–	–	–	–	623,413	247	(71,262)	–	(71,015)	552,398
BALANCE, DECEMBER 31, 2016	$8,232,238	$1,872,395	$1,783,631	$ –	$620,704	$176	($44,331)	$221	($43,934)	$12,465,034

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

Chairman：Chen-Cheng Chien 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, 2016 AND 2015

Unit：NT$ Thousand

Items	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) before income tax	$704,996	$653,264
Adjustments:		
Earnings and loss		
Depreciation expenses	60,747	60,504
Amortization expenses	22,198	21,003
Allowance for or (reversal) of credit losses	513,112	474,723
Net (gain) or loss on financial assets and liabilities at fair value through profit or loss	(116,497)	71,940
Interest expenses	1,879,064	2,298,356
Interest income	(4,401,671)	(4,780,347)
Dividend income	(63,442)	(52,827)
Net changes in credit guarantees	(20,000)	—
Loss (gain) on disposal of investments	(50,581)	(53,019)
Loss on impairment of financial assets	—	23,586
Other	49	—
Total of earnings and losses	(2,177,021)	(1,936,081)
Changes in operating assets and liabilities:		
Net changes in operating assets		
Increase in due from the Central Bank of China and other banks	1,010,238	(201,714)
Decrease (increase) in financial assets at fair value through profit or loss	(7,710)	7,019,842
Decrease (increase) in accounts receivable	(124,876)	(67,354)
Decrease (increase) in discounts and loans	(10,161,474)	16,468,803
Decrease (increase) in available-for-sale financial assets	1,844,969	(10,651,233)
Decrease (increase) in held-to-maturity financial assets	(6,200,687)	(8,961,273)
Decrease (increase) in other financial assets	623,704	(387,067)
Total net changes in operating assets	(13,015,836)	3,220,004
Net changes in operating liabilities		
Increase (decrease) in due to Central Bank of China and other banks	(263,098)	(363,747)
Increase (decrease) in bills and bonds sold under agreements to repurchase	30,439	1,009,963
Increase (decrease) in accounts payable	1,051,719	(59,340)
Increase (decrease) in deposits and remittances	(4,269,824)	(7,187,582)
Increase (decrease) in other financial liabilities	(163,164)	(3,023)
Increase (decrease) in provisions for employee benefits	(620,063)	29,620
Total net changes in operating liabilities	(4,233,991)	(6,574,109)
Total net changes in operating assets and liabilities	(17,249,827)	(3,354,105)
Total adjustments	(19,426,848)	(5,290,186)

(continued on next page)

Net cash provided by (used in) operations	(18,721,852)	(4,636,922)
Interest received	4,381,929	4,662,688
Dividends received	63,442	51,663
Interest paid	(1,998,634)	(2,303,063)
Income tax refunded (paid)	(84,559)	(58,240)
Net cash provided by (used in) operating activities	(16,359,674)	(2,283,874)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(22,648)	(27,354)
Acquisition of intangible assets	(16,150)	(21,720)
Decrease in other financial assets	—	7,974
Increase in other assets	(71,877)	(51,229)
Net cash provided by (used in) investing activities	(110,675)	(92,329)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of financial debentures	(3,000,000)	—
Increase in guarantee deposit received	13,401	—
Decrease in guarantee deposit received	—	(2,281)
Decrease in other liabilities	(12,033)	(23,437)
Distribution of cash dividends	(23,356)	(22,200)
Net cash provided by (used in) financing activities	(3,021,988)	(47,918)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH & CASH EQUIVALENTS	298	(23,874)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,492,039)	(2,447,995)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	31,320,675	33,768,670
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$11,828,636	$31,320,675
Composition of cash & cash equivalents:		
Cash and cash equivalents in balance sheets	$3,992,115	$3,384,503
Due from the Central Bank of China and other banks that meet the definition of cash & cash equivalents in IAS No.7	4,487,366	7,870,737
Bills and bonds purchased under agreements to resell that meet the definition of cash & cash equivalents in IAS No. 7	3,349,155	20,065,435
Cash and cash equivalents in consolidated statements of cash flows	$11,828,636	$31,320,675

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

Chairman：Chen-Cheng Chien　　President：Moan-Sheng Huang　　Chief Accountant：Anna Hsu

BANK OF KAOHSIUNG CO. LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(The currency unit is NTD thousand unless otherwise specified)

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 Principal business of individual subsidiaries included in the consolidated financial statements: Note 4.3

1.3 The functional currency and the presentation currency used in financial statements are both the New Taiwan Dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 16, 2017.

3. APPLICABILITY OF THE NEW ANNOUNCEMENT, STANDARDS, AND INTERPRETATION

3.1 The effect of using the newly announced and amended international financial reporting standards as approved by Financial Supervisory Commission (hereinafter referred to as "FSC"): None.

3.2 Applicability of the new announcement, standards, and interpretation

The Regulations Governing the Preparation of Financial Reports by Public Bank and the Regulations Governing the Preparation of Financial Reports by Securities Firm which has been announced but not yet come into effect, and the IFRS, IAS, IFRIC and SIC, approved by Financial Supervisory Commission.

According to Letter Jin-Guan-Yin-Fa-Zi no. 10610000830 and Jin-Guan-Zheng-Shen-Zi no. 1050026834, and Jin-Guan-Zheng-Juan-Zi No. 1060002308 issued by Financial Supervisory Commission (hereinafter referred to as "FSC"), combined business must start to adopt the IFRS, IAS, IFRIC, and SIC(collectively known as IFRSs) releases of IASB and, as approved by FSC from 2017 and the Criteria for the Compilation of Financial Statements by Public Banks.

Update/amended/improved IFRSs and interpretation	The effective date after announcement of IASB (Note 1)
"Improvement in the period of 2010-2012"	July 1, 2014 (Note 2)
"Improvement in the period of 2011-2013"	July 1, 2014
"Improvement in the period of 2012-2014"	January 1, 2016 (Note 3)
Amendment to IFRS 10, IFRS 12, and IAS 28, " Investment Entities: exceptions of Consolidated Financial Statements"	January 1, 2016
Amendment to IFRS 11, "Acquisition of Joint Ventures Operation Rights"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to "Disclosure Initiatives" of IAS 1	January 1, 2016
Amendment to IAS 16 and IAS 38, "Interpretation of Acceptable Depreciations and Amortizations"	January 1, 2016
Amendment to IAS 16 and IAS 41, "Agriculture: Productive Plantation"	January 1, 2016
Amendment to IAS 19, "Determined Benefit Plan: Appropriation of employee benefit"	July 1, 2014
Amendment to IAS 36, "Disclosure of Recoverable Amount of Non-Financial Assets"	January 1, 2014
Amendment to IAS 39, "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

Note 1: Unless otherwise specified, the aforementioned announced/amended/improved IFRSs or interpretations shall become effective as of respective effective dates.

Note 2: The amendment to IFRS 2 shall be applicable to share-based payment beyond July 1 2014; The amendment to IFRS 3 shall be applicable to corporate mergers for acquisition beyond July 1 2014; amendment to IFRS 13 shall come into force immediately. All other amendments shall be applicable to respective dates beyond July 1 2014.

Note 3: With the exception of the amendment to IFRS 5, which effective date is postponed to the year starting January 1 2016, all other amendments shall be effective in retrospect from respective dated from January 1 2016.

Further to the aforementioned detail, the applicability of the aforementioned announcements/amendments/improvements of the IFRSs and interpretations will not cause significant change in the accounting policies of the Bank and its subsidiaries:

(1) Amendment to IAS 36, "Disclosure of Recoverable Amount of Non-financial Assets"

IASB amended the disclosure requirement of IAS 36, "Impairment of Assets" at the time of announcing IFRS 13 "Fair Value Measurement" thereby the Bank and its subsidiaries are required to disclose the recoverable amount from assets or cash in each reporting period. The amendment to IAS 36 for this instance explicitly stated that the Bank and its subsidiaries shall disclose the recoverable amount in the period with recognition or reversal of impairment. In addition, if the Bank calculates the recoverable amount from assets or cash by subtracting the cost of sale from fair value, the class of fair value and key evaluation assumption (Class II and Class III) shall be disclosed.

(2) Amendment to the Regulations Governing the Preparation of Financial Reports by Public Bank, and the Regulations Governing the Preparation of Financial Reports by Securities Firm

The amendment conforms to the IFRSs applicable in 2017 with the addition of several accounting items and the requirement for disclosure of non-financial asset impairment. In alignment with the practice of IFRSs, a number of issues for recognition and measurement were mentioned with the inclusion of disclosure of good will.

According to the amendment, if the Chairman or the President of the Company is also the Chairman or the President of other companies or entities, they are related parties unless no substantial control or significant influence could be proved otherwise. If the state of operation of an acquiree varied significantly from the state of operation before the merger, disclosure is required under the amendment.

The aforementioned amendment is applicable to accounting in 2017 in retrospect with the addition of disclosure of related party transactions and impairment of good will.

Further to the aforementioned effect, and until the date this consolidated financial statement was announced, the Bank and its subsidiaries continued to evaluate the effect of the amendment to other standards and interpretations on the financial position and financial performance. The evaluation result will be disclosed upon completion.

3.3 The influence of IFRSs announced by IASB pending on the recognition of FSC:

The IFRSs released by IASB pending on the recognition of FSC specified below must not be applicable to BOK and subsidiaries. As of the date of announcement of this consolidated financial statement, the FSC had not yet announced the effective date of any other IFRSs except IFRS 15 and IFRS 9, which will be effective in 2018.

Update/amended/improved IFRSs and interpretation	The effective date after announcement of IASB (Note)
IFRS 2 is revised on "Share-Based Payment- classification and measurement"	January 1, 2018
IFRS 4 is revised on "the applicability of IFRS 9 "Financial Instruments" to IFRS 4 "Insurance Contracts" .	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 9 and IFRS 7 are revised on "mandatory effective date and transitional disclosure"	January 1, 2018
Amendment to IFRS 10 and IAS 28, "the disposal or investment of assets between the investors and its associates of joint ventures"	To be determined by IASB
IFRS 15, "Revenue from Contracts with Customers"	January 1, 2018
IFRS 15 is revised on "Interpretation of IFRS 15" .	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to "Disclosure Initiatives" of IAS 7	January 1, 2017
Amendment to IAS 12, "Recognition of Unrealized Deferred Income Tax Assets"	January 1, 2017
Amendment to IAS 40, "Conversion of Investment Property"	January 1, 2018
IFRS 22, "Consideration of foreign currency transactions and advance payment from customers"	January 1, 2018
Improvement in the period of 2014-2016 – IFRS 1, "First-time Adoption of IFRSs"	January 1, 2018
Improvement in the period of 2014-2016 – IFRS 12, "Disclosures of Interests in Other Entities"	January 1, 2017
Improvement in the period of 2014-2016 – "Investments in Associates and Joint Ventures" .	January 1, 2018

Note: Unless otherwise specified, the aforementioned announcement/revision/amendment of standard or interpretation must come into effect as of the respective date and beyond.
The aforementioned announcement/revision/amendment of standard or interpretation will not cause significant change to the accounting policies of BOK and subsidiaries except the following:

(1) IFRS 9 "Financial Instruments"

A. The Recognition and Measurement of Financial Assets

Subsequent measurement of the financial assets previously falling within the scope of IAS 39, "Financial Instruments: Recognition and Measurement" shall be based on the cost after amortization or at fair value. Financial assets are classified as follows pursuant to IFRS 9:

Debt instruments invested by the Bank and its subsidiaries, in which cash flows bound by contracts are fully for the payment of principal and the interest for the outstanding principal, shall be classified and measured as follows:

(A)Financial assets held for receiving cash flows from contracts shall be measures on the basis of the cost after amortization. The interests accrued from this category of financial assets shall be recognized as interest income under the title of income subject to impairment. Impairment shall be recognized as profit and loss.

(B) Financial assets held for receiving cash flows from contracts and for disposal shall be measured at fair value through other comprehensive income statements. The interests accrued from this category of financial assets shall be recognized as interest income under the title of income subject to impairment. Impairment and exchange gain/loss shall be recognized as profit and loss. Other changes in fair value shall be recognized as comprehensive income. At the time of the removal or reclassification of these assets, the fair value previously accumulated as other comprehensive incomes shall be reclassified as profit and loss at fair value.

The financial assets invested by the Bank and its subsidiaries did not meet the aforementioned conditions but measured at fair value. The Bank and its subsidiaries may, at the time of initial recognition, designate equity investments not available for sale as financial assets at fair value through profit and loss in measurement. The dividend income of this category of financial assets shall be recognized as income. Other related income and loss shall be recognized as other comprehensive incomes without the necessity of subsequent evaluation for impairment but accumulate as change in other comprehensive incomes at fair value without reclassification as profit and loss.

B. Impairment of Financial Assets

IFRS 9 adopted the “projected credit loss model” to recognize impairment of financial assets in its update version. Financial assets on the basis of cost after amortization, financial assets at fair value through other comprehensive income statement on compulsory basis, receivable rental income, assets from contracts under IFRS 15 “Revenue from Contracts with Customers” or promise of loan and financial guarantee contracts, shall be recognized for provision for credit loss. If the aforementioned credit risk did not intensify after initial recognition, the recognized provision for credit loss shall be measured on the basis of the projected credit loss in the 12 months ahead. If the aforementioned credit risk intensified significantly after initial recognition, the recognized provision for credit loss shall be measured on the basis of the remaining period of projected credit loss. Accounts receivable that did not include major financial components shall be recognized for provision for credit loss on the basis of projected credit loss during the perpetuity of the accounts.

For financial assets that had credit impairment at the time of initial recognition, the Bank and its subsidiaries shall calculated the effective interest rate on the basis of the projected credit loss at the time of initial recognition. Subsequent provision for credit loss shall be measured on the basis of the accumulated changes in projected credit loss in the future.

(2) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 is regulatory for revenue from contracts with customers and will replace IAS 18 “Revenue” and IAS 11 “Construction Contracts”, and related interpretations.

In adopting IFRS 15, the Bank and its subsidiaries recognized revenues in the steps specified below:

A. Indentify the contracts with customers;
B. Identify the contractual obligations;
C. Determine the transaction price;
D. Amortize the transaction price to contractual obligations; and
E. Recognize for revenue when contractual obligations are satisfied.

From the effective date of IFRS15 and related amendments, the Bank and its subsidiaries may apply the principle retroactively to the period of comparison or recognize the accumulated influence of first use on the first day of application.

(3) IFRS 16 "Leases"

IFRS 16 regulates the accounting of leases and replaces IAS 17 "Leases" and its interpretation. When IFRS 16 takes effect, and BOK and subsidiaries are the Lessees, recognitions of lease assets and lease liabilities in the consolidated balance sheet except leases of small amounts and short-term leases where IAS 17 may be adopted for the accounting of leases. Depreciations of lease assets and lease liabilities must be presented in the consolidated income statement on the interest expense generated under the effective interest rate method. The consolidated statement of cash flows must contain information on the principal of lease liabilities as cash flow from financing while interest payment as cash flow from operation. There is no significant influence on BOK and subsidiaries in the accounting of Lessor.

When IFRS 16 comes into effect, BOK and subsidiaries may select the application in retrospect to the period of comparison or the accumulated influence from the first-time adoption of the standard on the day of first-time adoption.

The bank and its subsidiaries are evaluating the effect on the financial condition and operating results by said standards and interpretations. The applicable effects will be disclosed after the evaluation is complete.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting polices 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

These consolidated financial statements are prepared according to Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and applicable IFRS, IAS, SIC, and IFRIC as recognized by the Financial Supervisory Commission .

4.2 Basis of Preparation

(1) Except for the following items, these consolidated statements have been prepared under the historical cost convention:

A. Financial assets and liabilities measured at fair value through profit or loss (including derivatives) measured at fair value.

B. Available-for-sale financial assets measured at fair value.

C. Liabilities of cash-settled share-based payment agreement measured at fair value.

D. Defined benefit liabilities recognized at the net value of pension fund assets less the present value of defined benefit obligations.

(2) In preparing financial statements in accordance with the IFRSs recognized by FSC, the management must determine significant accounting assumptions and estimates under its professional judgment and the accounting policies of BOK and subsidiaries. Changes in accounting assumptions will cause significant influence on financial reporting. The management of BOK and subsidiaries firmly believe that the accounting assumption used is appropriate. For matters of judgment at high level or of complexity, or, assumption or estimate that may cause significant influence to this financial reporting, refer to Note 5.

4.3 Basis of consolidation

(1) The principles for the compilation of consolidated financial statements

A. The Bank has included all its subsidiaries as the entities in the consolidated financial statements. Subsidiaries as referred to are the entities controlled by the Bank and its subsidiaries (including structural entities). When the Bank and its subsidiaries are exposed to the variable return from the participation in specific entity or is entitled to the variable return of the entities, and can influence such return through the power of the entity, the Bank and its subsidiaries are in control of such entity. Subsidiaries are included into the consolidated financial statements as of the date the Bank has acquired control and consolidation will be terminated as of the day the Bank lose its control.

B. The transactions among companies, the balance, and unrealized income/loss are removed. Necessary adjustment has been made to accounting policies of the subsidiaries in conformity to the accounting policy of the Bank and its subsidiaries.

C. If the change in shareholding of the subsidiaries did not result in the loss of control (transaction with uncontrolled equity) shall be taken as equity transaction. In other words, it is the transactions among shareholders. The difference between the amount of adjustment for uncontrolled equity and the corresponding fair value receive paid or received shall be recognized as equity.

D. When the Bank loses its control over a specific subsidiary, the residual investment in such subsidiary shall be reevaluated at fair value and recognized as the cost of the initial recognized financial assets at fair value, or the initial recognized investment in associates or joint ventures. The difference between fair value and book value shall be recognized as income for the current period. The accounting of the amount related to such subsidiary previously recognized as other comprehensive income shall be identical to the accounting of direct disposition of related assets or liabilities of the Bank and its subsidiaries. In other words, it is the gain or loss previously recognized as other comprehensive incomes, and reclassified as income when related assets or liabilities are disposed. When the Bank loses its control over such subsidiary, the gain or loss shall be reclassified from equity to profit and loss.

(2) Subsidiaires included in the consolidated financial statements

Name of Subsidiary	Main Business Activities	Shareholding %	
		Dec. 31, 2016	Dec. 31,2015
Kaohsiung Bank Insurance Agency Co., Ltd.	Life insurance agency business	100%	100%
Kaohsiung Bank General Insurance Agency Co., Ltd	Property insurance agency business	100%	100%

The financial statement of the Kaohsiung Bank General Insurance Agency Co., Ltd. was unaudited. However, the management of the Bank holds that the unaudited financial statement of this subsidiary caused no significant influence on the consolidated financial statements of the Bank.

A. Change in the number of subsidiaries in consolidation: None.
B. Subsidiaries not included in the consolidated financial statements: None.
C. Adjustment and management of subsidiaries using different accounting periods: None.
D. Major restriction: None.
E. The content of the holding of securities issued by the parent company by subsidiaries: None.
F. Information on subsidiaries of material uncontrolled equity: None.

4.4 Foreign Currency Translation:

(1) Functional and Presentation Currency

Items included in the financial statements of the Bank and its 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 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 sheets. 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 and its subsidiaries OBU in the 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 Bank's and its subsidiaries ' closing exchange rate at the date of that balance sheets;

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 exchangerate fluctuate 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 recognised in other comprehensive income are reclassified as profit or loss from equity.

4.5 Cash and Cash Equivalents

"Cash and cash equivalents" in the balance sheets 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 balance sheets 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.

4.6 Bills and Bonds Under Repurchase or Resale Agreements

For transactions of bills and bonds with a condition of repurchase agreement or resell 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.

4.7 Financial Assets or Liabilities

The financial assets and liabilities of the Bank and its subsidiaries including derivatives are recognized in the balance sheets 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 its 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 its 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 its subsidiaries of money, merchandise or services to debtors, and loans and receivables not originated by the Bank and its 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 its 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 balance sheets 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 sheets 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 its 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 balance sheets 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 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 its 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 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 and its subsidiaries or provision of bonds or stocks as security for Repo trading, the Bank and its 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 its subsidiaries .

4.8 Reclassification of Financial Assets

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

4.9 Offsetting Financial Instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheets 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.

4.10 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 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.

4.11 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.

4.12 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 its 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 serveral 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 assets in the group.

The Bank and its 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 amout 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 its 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 its subsidiaries shall make an allowance for credit losses and guarantees equaling 1% of the balance of Category One assets less government claims. The remaining unsound 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.

4.13 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".

4.14 Property and Equipment

The property and equipment of the Bank and its 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 seperately 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.

4.15 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.

4.16 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.

4.17 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.

4.18 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”.

4.19 Income Taxes

(1) Income tax in the period

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 balance sheets date. The carrying amount and temporary differences of assets and liabilities included in the balance sheets 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.

4.20 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)Benefit after retirement

A. Determined appropriation plan

The appropriation to pension fund under the determined benefit plan is made on the accrual basis and the amount appropriates is recognized as pension cost. Advanced appropriation shall be recognized as assets within the scope of refundable cash or reduced payment in the future.

B. Determined benefit plan

(A) Net obligation of determined benefit plan is based on the amount of benefit earned by the employees for their service in current period or in the past under discount, and presented by the fair value of the present value of determined benefit obligation net of planned assets as of the balance sheet date. The determined benefit net obligation shall be calculation under the projected unit benefit method by professional actuary annually and the discount rate is the market yield rate of government bonds (on the balance sheet date).

(B) The reevaluation value generated from determined benefit plan is recognized as comprehensive income in the period of accrual and stated as retained earnings.

(C) Related expenses of the cost of service in the previous period shall be immediately recognized as income.

(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) Remuneration to employees and directors and shareholders

Remuneration to employees and directors and supervisors shall be recognized as expense and liabilities if could be defined as mandatory or presumed obligation and the amount can be reasonably estimated. If the exact amount resolved for distribution is different from the estimated amount, proceed to accounting change.

(5) Termination benefits

A severance benefit shall be offered when ending the employment with a specific employee before normal retirement, or when a specific employee accepts the offer of the Bank with a benefit in exchange for the termination of employment. The Bank and its subsidiaries shall recognize the irrevocable offer of severance benefits or related regrouping costs as expenses, whichever comes first. Benefit not anticipated for full settlement within 12 months after the balance sheet date shall be subject to discount.

4.21 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 its 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.

4.22 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 “Reserve for guarantee liabilities”.

4.23 Bank Debentures

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

4.24 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 balance sheets date.

4.25 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.

4.26 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 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 regularly 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) Please refer to Note 12.4(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 income taxes and deferred income taxes.

Please see Note 6.37 for evaluation of deferred income tax items.

5.4 The calculation of net determined welfare liabilities

In calculating the present value of determined benefit obligation, The Bank and its subsidiaries determined the actuarial assumption under judgment and estimation on the balance sheet date, including the discount rate and the salary growth rate in the future. Any change in the actuarial assumption will significantly affect the amount of determined benefit obligation of The Bank and its subsidiaries. As of December 31 2016, the book value of net determined benefit liabilities of The Bank and its subsidiaries amounted to $349,335 thousand.

6. DETAILS OF SIGNIFICANT ACCOUNTS

6.1 Cash and Cash Equivalents

Items	Dec. 31, 2016	Dec. 31, 2015
Cash on hand and petty cash	$1,264,805	$1,370,243
Notes and checks for clearing	988,985	324,924
Due from banks	1,738,325	1,689,336
Total	$3,992,115	$3,384,503

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

Item	Dec. 31, 2016	Dec. 31, 2015
Cash and cash equivalents in consolidated balance sheets	$3,992,115	$3,384,503
Due from the Central Bank of China and other banks that meet the definition of cash and cash equivalents in IAS 7	4,487,366	7,870,737
Bills and bonds purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	3,349,155	20,065,435
Cash and cash equivalents in consolidated statement of cash flow	$11,828,636	$31,320,675

6.2 Due from Central Bank and Call Loans to Banks

Items	Dec. 31, 2016	Dec. 31, 2015
Deposit reserve:		
Category A	$3,874,304	$4,846,952
Category B	5,523,091	5,893,748
Foreign currency deposits	32,220	22,970
Due from Central Bank－National Treasury	882	815
Subtotal	$9,430,497	$10,764,485
NCD issued by Central Bank	$ —	$3,700,000
Due from Central Bank－interbank settlement funds	564,085	503,666
Call loans to banks	579,960	—
Total	$10,574,542	$14,968,151

(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 8 for details of NCD issued by the Central Bank of China as security over the various businesses of the Bank and its subsidiaries as of December 31, 2016 and 2015.

6.3 Financial Assets at Fair Value Through Profit or Loss

Items	Dec. 31, 2016	Dec. 31, 2015
Financial assets held for trading:		
Short-term notes	$3,784,211	$3,434,623
Fund	30,470	1,631
Stocks	16,015	—
Bonds (government bonds)	68,584	271,679
Foreign bonds	82,250	171,487
Subtotal	$3,981,530	$3,879,420
Derivative instruments		
Forwards	$875	$1,029
Foreign exchange swaps	3,846	—
Subtotal	$4,721	$1,029
Total	$3,986,251	$3,880,449

(1) Please refer to Note 6.15 for details of derivative contracts that have yet to mature as of December 31, 2016 and 2015.

(2) Please refer to Note 8 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

Items	Dec. 31, 2016	Dec. 31, 2015
Bonds (government and corporate bonds)	$2,507,589	$4,888,317
Stocks	117,087	167,350
Fund	540	12,793
NCD issued by the Central Bank	25,030,186	28,600,493
Foreign bonds	3,642,674	3,167,738
Subtotal	$31,298,076	$36,836,691
Less: accumulated impairment	—	—
Total	$31,298,076	$ 36,836,691

(1) Please refer to Note 8 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, 2016 and 2015.

(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, 2016 and 2015 amounted to $32,700 thousand and $329,380 thousand, respectively.

(3) Information on Reclassification

Some items previously classified as financial assets available for sale, have been reclassified and their adjusted fair value is shown below due to the change of the intent of BOK and subsidiaries in holding the assets and are capable of holding the assets to foreseeable future or to maturity, and are in conformity to paragraph 54 of IAS 39, as of November 30 2016, the day of reclassification.

	Available-for-sale Financial assets	Held-to-maturity Financial assets
Before reclassification	$3,675,149	$ —
After reclassification	—	3,675,149

The aforementioned reclassified financial assets were recognized as equity adjustment on November 30 2016 and the total amount was debit balance of TWD 68,951 thousand.

6.5 Bills and Bonds with Agreements to Resell

Items	Dec. 31, 2016	Dec. 31, 2015
Short-term notes	$3,159,155	$13,798,833
Bonds (government and corporate bonds)	190,000	6,266,602
Total	$3,349,155	$20,065,435

Bills and bonds with agreements to resell held by the Bank and its subsidiaries will be sold at agreed prices of $3,350,099 thousand and $20,070,107 thousand, respectively after December 31, 2016 and 2015. As of December 31, 2016 and 2015, bonds with resell agreements were not provided as underlying securities for repurchase agreements.

6.6 Accounts Receivable－Net

Items	Dec. 31, 2016	Dec. 31, 2015
Credit card fees receivable	$162,187	$179,789
Accounts receivables from credit card issuers	3,171	7,277
Subtotal	$165,358	$187,066
Interest receivable	$509,857	$490,115
Acceptances receivable	327,130	195,446
Revenues receivable	165,211	143,185
Other receivable	69,275	77,316
Total	$1,236,831	$1,093,128
Less: allowance for doubtful accounts	(87,303)	(66,169)
Net	$1,149,528	$1,026,959

6.7 Discounts and Loans－Net

Items	Dec. 31, 2016	Dec. 31, 2015
Discounts	$46,520	$7,998
Overdrafts	23,089	16,499
Short-term loans	39,612,524	29,809,774
Short-term secured loans	23,796,345	20,318,136
Medium-term loans	24,874,998	25,619,336
Medium-term secured loans	24,878,131	22,209,323
Long-term loans	11,260,493	12,007,380
Long-term secured loans	52,514,635	57,370,994
Import/export negotiations	25,714	1,968
Overdue loans	617,672	601,122
Subtotal	$177,650,121	$167,962,530
Less: allowance for doubtful accounts	(2,034,342)	(2,018,612)
Net	$175,615,779	$165,943,918

(1) Please see Note 12.4 (3) F for details of evaluation on impairment of discounts and loans and receivables as of December 31, 2016 and 2015.

(2) The Bank and its subsidiaries made appropriate allowance for credit losses arising from discounts, loans and receivables. As of December 31, 2016 and 2015, 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:

Items	2016	2015
Balance, January 1	$2,018,612	$1,849,247
Provisions	363,129	347,237
Write-offs	(470,063)	(289,016)
Recovery of written-off credits	126,484	103,293
Effects of exchange rate changes and others	(3,820)	7,851
Balance, December 31	$2,034,342	$2,018,612

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

Items	2016	2015
Balance, January 1	$66,169	$53,663
Provisions (reversal)	19,984	13,913
Write-offs	(985)	(2,233)
Recovery of written-off credits	2,149	844
Effects of exchange rate changes and others	(14)	(18)
Balance, December 31	$87,303	$66,169

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

Items	2016	2015
Balance, January 1	$11,053	$21,383
Provisions	1,366	9,436
Write-offs	(979)	(19,784)
Recovery of written-off credits	—	—
Effects of exchange rate changes and others	—	18
Balance, December 31	$11,440	$11,053

D. The Bank and its subsidiaries recognized $364,479 thousand bad debt expenses for the FY 2016, of which $384,479 thousand were included in allowance for credit losses and $(20,000) thousand in guarantee reserves. The Bank and its subsidiaries recognized $370,586thousand bad debt expenses for the FY 2015, of which $370,586 thousand were included in allowance for credit losses and $29,000 thousand in guarantee reserves.

6.8 Held-to-Maturity Financial Assets－Net

Items	Dec. 31, 2016	Dec. 31, 2015
Foreign bonds	$9,082,220	$5,586,406
Domestic bonds	12,527,608	6,149,770
Subtotal	$21,609,828	$11,736,176
Less: accumulated impairment	—	—
Total	$21,609,828	$11,736,176

(1) As of December 31 2016 and 2015, the face value of investments with conditions for trading held-to-maturity amounted to $1,083,907 thousand and $685,643.

(2) BOK and subsidiaries sold Held-to-maturity financial assets in 2016 due to the worsening credit standing of the issuers and the maturity date of less than 3 months. The proceeds from these disposals amounted to TWD 208,694 thousand with recognition of capital loss from disposition of assets amounting to TWD 2,375 thousand.

(3) In response to the requirement of a higher level of mandatory Capital and the intensification of risk control by the competent authority with regard to investments in Mainland China in the future, BOK and subsidiaries sold part of their Held-to-maturity financial assets. The proceeds from the disposals amounted to TWD 1,215,514 thousand with recognition of capital gain from disposition of assets amounting to TWD 28,564 thousand.

(4) BOK and its subsidiaries reclassified part of their Available-for-sale financial assets on November 30 2016 as Held-to-maturity financial assets.. Information on this reclassification is shown in Note 6 (4).

6.9 Structured Entities

(1) Unconsolidated structured entities:

BOK and subsidiaries hold the following equity of unconsolidated structure entities. BOK and subsidiaries did not provide any funding or support to these structured entities. The maximum amount of exposure of loss of these entities must be the book value of holding these assets.

Type of structured entities	Nature and purpose	Equities owned by BOK and subsidiarie
Securitized products	Investment in products from securitization of assets, for investment return	Invested in the asset-back securities issued by the entities

(2) The book value of the assets on structured consolidated equities not presented in the consolidated financial statements of BOK and subsidiaries are shown below:

Securitized products	Dec. 31, 2016	Dec. 31, 2015
Investment in debt securities with no active market	$—	$131,260

6.10 Other Financial Assets—Net

Items	Dec. 31, 2016	Dec. 31, 2015
Equity investments carried at cost	$1,161,567	$1,161,567
Time deposit with original maturity date of over 3 months	—	496,300
Bond investments with no active market	—	131,260
Non-performing loans transferred from accounts other than loans	31,591	31,256
Short-term advances	17,610	13,847
Remittances purchased	—	1,221
Subtotal	$1,210,768	$1,835,451
Less: allowance for doubtful accounts	(11,440)	(11,053)
Net	$1,199,328	$1,824,398

Changes in accumulated impairment:

Items	2016	2015
Balance, January 1	$ —	$75,899
Provisions	—	23,586
Write-off	—	(102,392)
Effects of exchange rate changes	—	2,907
Balance, December 31	$ —	$ —

6.11 Property and Equipment—Net

Name of Asset	Dec. 31, 2016			
	Cost	Accumulated Depreciation	Accumulated Impairment	Carrying Amount
Land	$2,031,893	$ —	$ —	$2,031,893
Building	1,218,188	470,172	—	748,016
Machinery and computer equipment	445,246	339,556	—	105,690
Transportation equipment	16,722	15,291	—	1,431
Miscellaneous equipment	80,445	71,720	—	8,725
Leasehold improvement	125,204	113,706	—	11,498
Total	$3,917,698	$1,010,445	$ —	$2,907,253

Name of Asset	Dec. 31, 2015			
	Cost	Accumulated Depreciation	Accumulated Impairment	Carrying Amount
Land	$2,031,893	$ —	$ —	$2,031,893
Building	1,218,188	448,426	—	769,762
Machinery and computer equipment	445,890	328,993	—	116,897
Transportation equipment	18,128	15,869	—	2,259
Miscellaneous equipment	80,525	71,383	—	9,142
Leasehold improvement	124,981	109,582	—	15,399
Total	$3,919,605	$974,253	$ —	$2,945,352

(1) Changes in property and equipment:

Items	Land	Building	Machinery Equipment	Transportation Equipment	Miscellaneous Equipment	Leasehold Improvement	Total
Cost							
Balance, Jan. 1, 2016	$2,031,893	$1,218,188	$445,890	$18,128	$80,525	$124,981	$3,919,605
Additions	—	—	20,364	90	1,973	223	22,650
Disposals	—	—	(20,998)	(1,496)	(2,053)	—	(24,547)
Foreign exchange differences	—	—	(10)	—	—	—	(10)
Balance, Dec. 31, 2016	$2,031,893	$1,218,188	$445,246	$16,722	$80,445	$125,204	$3,917,698
Accumulated Depreciation							
Balance, Jan. 1, 2016	$ —	$448,426	$328,993	$15,869	$71,383	$109,582	$974,253
Depreciation	—	21,746	31,569	918	2,390	4,124	60,747
Disposals	—	—	(20,998)	(1,496)	(2,053)	—	(24,547)
Foreign exchange differences	—	—	(8)	—	—	—	(8)
Balance, Dec. 31, 2016	$ —	$470,172	$339,556	$15,291	$71,720	$113,706	$1,010,445
Net Balance, Dec. 31, 2016	$2,031,893	$748,016	$105,690	$1,431	$8,725	$11,498	$2,907,253

Items	Land	Building	Machinery Equipment	Transportation Equipment	Miscellaneous Equipment	Leasehold Improvement	Total
Cost							
Balance, Jan. 1, 2015	$2,031,893	$1,218,188	$605,941	$20,851	$88,481	$268,852	$4,234,206
Additions	—	—	24,444	88	2,395	420	27,347
Disposals	—	—	(185,088)	(2,811)	(9,769)	(144,291)	(341,959)
Reclassification	—	—	583	—	(583)	—	—
Foreign exchange differences	—	—	10	—	1	—	11
Balance, Dec. 31, 2015	$2,031,893	$1,218,188	$445,890	$18,128	$80,525	$124,981	$3,919,605
Accumulated Depreciation							
Balance, Jan. 1, 2014	$ —	$426,680	$482,890	$17,725	$79,068	$249,341	$1,255,704
Depreciation	—	21,746	30,851	955	2,420	4,532	60,504
Disposals	—	—	(185,088)	(2,811)	(9,769)	(144,291)	(341,959)
Reclassification	—	—	336	—	(336)	—	—
Foreign exchange differences	—	—	4	—	—	—	4
Balance, Dec. 31, 2015	$ —	$448,426	$328,993	$15,869	$71,383	$109,582	$974,253
Net Balance, Dec. 31, 2015	$2,031,893	$769,762	$116,897	$2,259	$9,142	$15,399	$2,945,352

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

Items	2016	2015
Property and equipment additions	$22,650	$27,347
Foreign exchange differences	(2)	7
Consideration paid for property and equipment	$22,648	$27,354

6.12 Intangible Assets－Net

Items	Dec. 31, 2016	Dec. 31, 2015
Cost of computer software	$216,737	$217,219
Less: Aaccumulated amortisation	(150,063)	(148,814)
Accumulated impairment	—	—
Net	$66,674	$68,405

Changes in intangible assets:

Items	2016	2015
Cost		
Balance, January 1	$217,219	$197,519
Additions	16,150	21,720
Disposals	(16,632)	(2,020)
Balance, December 31	$216,737	$217,219
Accumulated amortisation		
Balance, January 1	$148,814	$133,202
Amortisation expense	17,881	17,632
Disposals	(16,632)	(2,020)
Balance, December 31	$150,063	$148,814
Intangible assets, net	$66,674	$68,405

6.13 Other Assets－Net

Items	Dec. 31, 2016	Dec. 31, 2015
Refundable deposits	$68,861	$41,512
Miscellaneous assets	8,164	11,179
Prepayments	107,208	64,066
Total	$184,233	$116,757

6.14 Due to Central Bank of China and Other Banks

Items	Dec. 31, 2016	Dec. 31, 2015
Due to the Central Bank	$71,410	$106,140
Due to banks	213,649	201,374
Due to Chunghwa Post	270,750	379,720
Overdrafts on banks	1,730	—
Calls loan from other (central) banks	8,334,745	8,468,148
Total	$8,892,284	$9,155,382

6.15 Financial Liabilities at Fair Value Through Profit or Loss

Items	Dec. 31, 2016	Dec. 31, 2015
Derivatives		
Forwards	$615	$556
Foreign exchange swaps	734	19,198
Total	$1,349	$19,754

The Bank and its subsidiaries engaged in derivative transactions for the FY2016 and 2015 for the purpose of meeting clients' trading needs, squaring the Bank and its subsidiaries positions, meeting the Bank and its subsidiaries funding requirements in different currencies and hedging against risks arising from interest rate fluctuations. The hedging strategy of the Bank and its subsidiaries primarily aims at hedging against risks arising from market price or cash flow fluctuations. As of December 31, 2016 and 2015, the contractual amounts (notional principal) of the derivative contracts were as follows:

Items	Contractual Amount	
	Dec. 31, 2016	Dec. 31, 2015
Forward exchange contracts	130,809	205,262
Foreign exchange swap contracts	1,080,524	2,057,008

6.16 Bills and Bonds Sold with Agreement to Repurchase

Items	Dec. 31, 2016	Dec. 31, 2015
Government bonds	$35,286	$46,731
Foreign government bonds	94,985	69,877
Financial bonds	971,252	954,476
Total	$1,101,523	$1,071,084

The purchase considerations for bills and bonds sold with agreement to repurchase after December 31, 2016 and 2015 were $ 1,106,351thousand and $1,074,513 thousand.

6.17 Payables

Items	Dec. 31, 2016	Dec. 31, 2015
Payroll transfers payable	$1,437,773	$1,109,386
Checks for clearing	988,985	324,924
Interest payable	250,870	370,440
Outstanding bills for collection	47,080	231,958
Accrued expenses	326,618	325,412
Acceptances	328,507	198,888
Collections for others	96,896	67,903
Payable for settlement of securities	9,363	—
Accounts payable	3,116	6,501
Other payables	183,804	139,700
Total	$3,673,012	$2,775,112

6.18 Deposits and Remittances

Items	Dec. 31, 2016	Dec. 31, 2015
Checking account deposits	$4,627,179	$2,130,507
Public treasury deposits	12,705,063	13,245,842
Demand deposits	25,653,312	26,919,099
Time deposits	61,367,559	68,940,455
Negotiable certificate of deposits	568,100	511,100
Demand savings deposits	53,380,224	50,593,654
Time savings deposits	67,168,572	67,399,185
Remittances	36	27
Total	$225,470,045	$229,739,869

6.19 Bank Debentures

Items	Offering Period Interest Rate	Dec. 31, 2016	Dec. 31, 2015
Subordinate financial debentures First issue, 2009	2009.1.20-2016.1.20 / 3.4%	$ —	$3,000,000
Subordinate financial debentures First issue, 2013	2013.8.6-2020.8.6 / 2.1%	1,300,000	1,300,000
Subordinate financial debentures Second issue, 2013	2013.9.5-2020.9.5 / 2.1%	700,000	700,000
Subordinate financial debentures First issue, 2014	2014.3.25-2021.3.25 / 1.609%-1.738%	1,200,000	1,200,000
Subordinate financial debentures Second issue, 2014	2014.10.29-2021.10.29 / 2.35%	650,000	650,000
Subordinate financial debentures Third issue, 2014	2014.12.3-2021.12.3 / 2.35%	150,000	150,000
Total		$4,000,000	$7,000,000

6.20 Other Financial Liabilities

Items	Dec. 31, 2016	Dec. 31, 2015
Appropriated loans	$12,221	$175,385

Appropriated loans reserves described above refer to the various special syndicated loans organized by BOK 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.

6.21 Reserves for Liabilities

Items	Dec. 31, 2016	Dec. 31, 2015
Reserve for employee benefit liabilities	$349,335	$939,409
Reserve for guarantee liabilities	60,300	80,300
Other	16,383	16,334
Total	$426,018	$1,036,043

(1) Reserves for Employee Benefits

Items	Dec. 31, 2016	Dec. 31, 2015
Recognised in balance sheets:		
— Defined benefit plan	$299,054	$892,718
— Employee preferential savings plan	50,281	46,691
Total	$349,335	$939,409

A. Determined appropriation plan:

(A) The pension system under the "Labor Pension Act" is the determined pension plan management by the government that required regular contribution. An appropriation of funds at 6% of the monthly salary of each employee shall be made to the personal special account of the employee at the Bureau of Labor Insurance.

(B) The amount for appropriation as explicitly stated in the determined appropriation plan in 2016 and 2015 has been recognized as expenses in the comprehensive income statement and the total amount of which was $16,131 thousand, and $15,281 thousand, respectively.

B. Determined benefit plan:

(A) The pension system of The Bank and its subsidiaries under the "Labor Standards Act" is a determined benefit retirement plan managed by the government. The pension will be disbursed on the basis of the average salaries in the 6 months prior to the retirement day and the term of service. The Bank and its subsidiaries appropriate 8% of the total monthly salaries of the employees for the pension fund, which will then be deposited to the special account at Bank of Taiwan bearing the title of Supervisory Committee of Business Entities' Labor Retirement Reserve. If the balance in the account before the end of the fiscal year is insufficient to cover the payment for pension to the employees entitled to retirement in the next fiscal year, the Bank shall make up the amount short by the end of March of the next fiscal year. The said special account is managed by the Bureau of Labor Fund of the Ministry of Labor Affairs. Neither the Bank nor its subsidiaries has the right to influence the investment management strategy.

(B) The amount of obligations of The Bank and its subsidiaries deriving from determined benefit plan to be recognized in the balance sheet is shown below:

Items	Dec. 31, 2016	Dec. 31, 2015
Present value of determined benefit obligation	$1,587,507	$1,543,878
Fair value of plan assets	(1,288,453)	(651,160)
Net determined benefit liabilities (assets)	$299,054	$892,718

Changes in net determined benefit liabilities (assets) are shown below:

Items	2016		
	Present value of determined benefit obligations	Fair value of planned assets	Net determined benefit liabilities
Balance on January 1	$1,543,878	$651,160	$892,718
Cost of service			
Cost of service in current period	$79,570	$ —	$79,570
Interest expense (income)	26,826	11,634	15,192
Recognized as income	$106,396	$11,634	$94,762
Reevaluation value			
Planned return on assets (except the amountunder net interest)	$ —	($3,665)	$3,665
Actuarial loss (gain) -			
Change in financial assumption	43,206	—	43,206
Adjustment by experience	(18,901)	—	(18,901)
Recognized as other comprehensive income	$24,305	($3,665)	$27,970
Appropriation of employer		$689,988	($689,988)
Benefit payment	(87,072)	(60,664)	(26,408)
Balance on December 31	$1,587,507	$1,288,453	$299,054

Items	2015		
	Present value of determined benefit obligations	Fair value of planned assets	Net determined benefit liabilities
Balance on January 1	$1,433,928	$607,522	$826,406
Cost of service			
Cost of service in current period	$82,447	$ —	$82,447
Interest expense (income)	28,283	12,239	16,044
Recognized as income	$110,730	$12,239	$98,491
Reevaluation value			
Planned return on assets (except the amountunder net interest)	$ —	$4,051	($4,051)
Actuarial loss (gain) -			
Adjustment by experience	25,383	—	25,383
Recognized as other comprehensive income	17,807	—	17,807
Appropriation of employer	$43,190	$4,051	$39,139
Benefit payment	$ —	$49,185	($49,185)
Balance on December 31	(43,970)	(21,837)	(22,133)
	$1,543,878	$651,160	$892,718

(C) The Bank and its subsidiaries are exposed to the following risks due to the pension system regulated by the "Labor Standards Act":

a. Investment Risk

The Bureau of Labor Fund of the Ministry of Labor utilizes the labor pension fund to invest in domestic and foreign equity securities, bonds, and bank deposits in proprietary trade or appointment of a third party. However, the share of return on the planned assets of the Bank and its subsidiaries is the interest from time deposits at banks with terms of no less than 2 years.

b. Interest Risk

The fall of the interest rate for government bond caused an increase of the present value of the determined benefit obligations. However, the return on debt investment on planned assets will increase and the two offset each other partially in the net determined benefit liabilities.

c. Salary Risk

The calculation of the present value of determined benefit obligation is based on the salaries of the members in the plan of the future. An increase in the salaries of the members of the plan will cause an increase of the present value of determined benefit obligations.

(D) The present value of determined benefit obligations of the Bank and its subsidiaries are calculated by qualified actuarial professionals. Major assumption as of the measurement day is shown below:

Items	Measurement day	
	Dec. 31, 2016	Dec. 31, 2015
Discount rate	1.50%	1.75%
Projected rate of salary increase	2.00%	2.00%
Average maturity of determined benefit obligation	12 years	13 years

a. The assumption of the morbidity rate in the future is based on the mortality rate chart of annuity after improvement.

b. If there is reasonable and possible change in major actuarial assumption and other assumptions remained unchanged, the amount of the increase (decrease) in the present value of determined benefit obligation is shown below:

Items	Dec. 31, 2016	Dec. 31, 2015
Discount rate		
Increase by 0.25%	(43,206)	(42,302)
Decrease by 0.25%	44,794	44,000
Projected rate of salary increase		
Increase by 1%	189,427	185,882
Decrease by 1%	(167,125)	(163,033)

The actuarial assumptions may be interrelated. The change in particular assumption is unlikely. As such, the aforementioned sensitivity analysis may not be able to reflect the actual change in the present value of determined benefit obligations.

(E) The appropriation of the Bank and its subsidiaries in projected payment to pension plan in 2017 is $180,444 thousand.

C. Employee preferential savings plan:

(A) Please refer to Note 4.20 for details of the payment obligations of fixed-amount preferential savings of the Bank and its subsidiaries retired employees. The employee preferential savings plan is administered in accordance with internal policies.

(B) The amount of obligations of The Bank and its subsidiaries deriving from determined benefit plan to be recognized in the balance sheet is shown below:

Items	Dec. 31, 2016	Dec. 31, 2015
Present value of determined benefit obligation	$50,281	$46,691
Fair value of plan assets	—	—
Net determined benefit liabilities (assets)	$50,281	$46,691

Changes in net determined benefit liabilities (assets) are shown below:

Items	2016		
	Present value of determined benefit obligations	Fair value of planned assets	Net determined benefit liabilities
Balance on January 1	$46,691	$ —	$46,691
Cost of service			
Cost of service in current period	$ —	$ —	$ —
Difference in expense for recognition	16,509	—	16,509
Interest expense (income)	1,552	—	1,552
Recognized as income	$18,061	$ —	$18,061
Reevaluation value			
Planned return on assets (except the amountunder net interest)	$ —	$ —	$ —
Actuarial loss (gain) -			
Adjustment by experience	2,019	—	2,019
Recognized as other comprehensive income	$2,019	$ —	$2,019
Appropriation of employer	$ —	$ —	$ —
Benefit payment	(16,490)	—	(16,490)
Balance on December 31	$50,281	$ —	$50,281

Items	2015		
	Present value of determined benefit obligations	Fair value of planned assets	Net determined benefit liabilities
Balance on January 1	$45,202	$ —	$45,202
Cost of service			
Cost of service in current period	$ —	$ —	$ —
Difference in expense for recognition	16,717	—	16,717
Interest expense (income)	1,498	—	1,498
Recognized as income	$18,215	$ —	$18,215
Reevaluation value			
Planned return on assets (except the amountunder net interest)	$ —	$ —	$ —
Actuarial loss (gain) -			
Adjustment by experience	(958)	—	(958)
Recognized as other comprehensive income	($958)	$ —	($958)
Appropriation of employer	$ —	$ —	$ —
Benefit payment	(15,768)	—	(15,768)
Balance on December 31	$46,691	$ —	$46,691

(C) The present value of determined benefit obligations of the Bank and its subsidiaries are calculated by qualified actuarial professionals. Major assumption as of the measurement day is shown below:

Items	Measurement day	
	Dec. 31, 2016	Dec. 31, 2015
Discount rate	4%	4%
Projected rate of return on deposit of fund	2%	2%
Probability of cancellation of preferred deposit in the future	50%	50%
Average maturity of determined benefit obligation	10 years	9 years

a. The assumption of the morbidity rate in the future is based on the mortality rate chart of annuity after improvement.

b. If there is reasonable and possible change in major actuarial assumption and other assumptions remained unchanged, the amount of the increase (decrease) in the present value of determined benefit obligation is shown below:

Items	Dec. 31, 2016	Dec. 31, 2015
Discount rate		
Increase by 1%	(3,042)	(2,708)
Decrease by 1%	3,479	3,082

The actuarial assumptions may be interrelated. The change in particular assumption is unlikely. As such, the aforementioned sensitivity analysis may not be able to reflect the actual change in the present value of determined benefit obligations.

(D) The payment for the projected employee preferred deposit plan of The Bank and its subsidiaries in 2017 amounted to $16,490 thousand.

(2) Changes in reserve for guarantee liabilities:

Items	2016	2015
Balance at beginning of period	$80,300	$80,300
Reversal during the current period	(20,000)	—
Balance at end of period	$60,300	$80,300

6.22 Other Liabilities

Items	Dec. 31, 2016	Dec. 31, 2015
Guarantee deposits received	$53,887	$40,486
Advance receipts	65,915	77,513
Temporary receipts and suspense accounts	5,210	5,620
Other	54	79
Total	$125,066	$123,698

6.23 Equity

(1) Ordinary share

As of December 31, 2016 and 2015, The Bank and its subsidiaries authorized capital was $15,000,000 thousand as of the balance sheets dates, while the issued capital was $8,232,238 thousand and $7,788,659 thousand, respectively represented by 823,224 thousand shares and 778,866 thousand shares, respectively, with a par value of $10 per share.

Shareholders of BOK, in the shareholders' meeting held on June 23, 2016, adopted the proposal for appropriation of the earnings in fiscal year 2015 for capitalization of earnings amounting to TWD 405,010 thousand and capitalization of remuneration to employees amounting to TWD 34,249 thousand (on the basis of the closing price of TWD 8.88 on the day before the resolution of the Board, and conversion for the issuance of 3,857 thousand shares at TWD 38,569 thousand).

The aforesaid capital increase proposal was approved by the FSC on August 3, 2016 authorizing the Bank to issue a total of 44,358 common shares with a par value of $10. The ex-dividend date for the capital increase was scheduled to be August 30, 2016.

(2) Capital surplus

Items	Dec. 31, 2016	Dec. 31, 2015
Surplus arising from issuance of new shares at a premium	$1,872,334	$1,872,334
Endowment received	61	61
Total	$1,872,395	$1,872,395

The Bank 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 Bank 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, as of December 31, 2016 and December 31, 2015, BOK recognized its special reserve at TWD 0 in accordance with the Articles of Incorporation and applicable law.

(5) Other equity items

Items	Exchange differences on translation of financial statements of foreign operations	Unrealized Gains/ Losses from Available-for-sale Financial Assets	Other	Total
Balance, January 1, 2016	($71)	$26,931	$221	$27,081
Foreign currency translation adjustments				
－Gain or loss on translating the financial statements of foreign operating entities in the period	298	－	－	298
－Tax effects on Gain or loss on translating the financial statements of foreign operating entities in the period	(51)	－	－	(51)
Available-for-sale financial assets				
－Unrealized (loss) gain on available- for-sale financial assets	－	(124,218)	－	(124,218)
－Reclassification of accumulated (gain) or loss on disposal of available- for-sale financial assets to income statement(Note)	－	52,956	－	52,956
Balance, December 31, 2016	$176	($44,331)	$221	($43,934)

(Note): including the income and amortization removed from the reclassification of Available-for-sale financial assets.

Items	Exchange differences on translation of financial statements of foreign operations	Available-for-sale financial assets	Other	Total
Balance, January 1, 2015	$19,744	($3,429)	$406	$16,721
Foreign currency translation adjustments				
－Gain or loss on translating the financial statements of foreign operating entities in the period	(23,874)	－	－	(23,871)
－Tax effects on Gain or loss on translating the financial statements of foreign operating entities in the period	4,059	－	－	4,059
Available-for-sale financial assets				
－Unrealized (loss) gain on available- for-sale financial assets	－	18,589	－	18,589
－Reclassification of accumulated (gain) or loss on disposal of available- for-sale financial assets to income statement	－	11,771	－	11,771
Other				
－Movements in current period	－	－	(185)	(185)
Balance, December 31, 2015	($71)	$26,931	$221	$27,081

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.

6.24 Retained Earnings

(1) According to the amendment to the Bank Act in May 2015, employees are not entitled to dividend and bonus payments. In compliance with the aforementioned laws and regulations, the Bank passed the policy for the distribution of earnings in a regular session of the Shareholders' Meeting dated June 23 2016 through an amendment to the Articles of Incorporation. The policy of remuneration to labor is explicitly stated in the Articles of Incorporation. For the basis of estimation for remuneration to the employees and directors and supervisors and the actual payout, refer to Note 6.34.

According to the earnings distribution policy after the amendment to the Articles of Incorporation, the current year's earnings, if any, shall first 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 Board must prepare a proposal for distribution of earnings for presentation to the Shareholders' Meeting for resolution of distribution of dividends for 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) Appropriation of earnings for 2015 and 2014 resolved by the shareholders' meeting in June 2016 and 2015, respectively and earnings per share:

Items	Earnings Appropriation		EPS ($)	
	2015	2014	2015	2014
Recognized the legal reserve	$177,399	$148,202		
Recognized (Reverse) the special reserve	—	(86,057)		
Common shares cash dividend	23,366	22,211	0.03	0.03
Common shares stock dividend	405,010	347,965	0.52	0.47
Total	$605,775	$432,321		

(5) The profit distribution proposed by the Board of Directors on March 16, 2017 was as follows:

Items	2016	
	Amount	EPS ($)
Legal reserve	$186,211	
Recognized the special reserve	47,037	
Common shares cash dividend	387,244	0.386
Total	$620,492	

BOK planned to distribute Capital Reserve amounting to TWD 214,690 thousand as cash dividend to the shareholders (TWD 0.214 per share).

The proposal for distribution of earnings for fiscal year 2016 will be presented to the regular session of the Shareholders' Meeting scheduled to be held in June 2016.

(6) Information on the appropriation of the Bank and its subsidiaries 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.

6.25 Net interest Income

Items	2016	2015
Interest income		
Interest from bills discounted and loans	$3,642,470	$4,019,715
Interest from deposits and call loans from other banks	51,560	131,883
Interest from securities investment	674,832	542,397
Credit card revolving interest income	1,086	953
Other interest income	31,723	85,399
Subtotal	$4,401,671	$4,780,347
Interest expense		
Interest expenses from deposits	$1,614,407	$1,939,009
Interest expenses from interbank overdraft and call loans	149,530	168,238
Interest expenses on financial debentures	84,745	183,463
Other interest expenses	30,382	7,646
Subtotal	$1,879,064	$2,298,356
Net interest income	$2,522,607	$2,481,991

Interest accrued on financial assets on which an impairment has occurred for the years 2016 and 2015 was $10,027 thousand and $10,271 thousand, respectively.

6.26 Commission and Fee Revenues－Net

Items	2016	2015
Service fee revenue		
Service fee revenue - trust business	$108,595	$118,801
Service fee revenue - guarantees	38,939	63,995
Service fee revenue - foreign exchange	5,501	6,109
Service fee revenue - loans	107,484	78,904
Credit card service fee revenue	12,101	13,307
Agency fee revenue	312,721	269,068
Deposit and remittance service fee revenue and other service fee revenue	36,527	39,886
Subtotal	$621,868	$590,070
Service fee expense		
Service fee expense - foreign exchange	$14,111	$7,588
Deposit and remittance service fee expense and other service fee expenses	36,005	44,284
Subtotal	$50,116	$51,872
Net service fee revenue	$571,752	$538,198

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 and its subsidiaries financial statements.

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

Items	2016	2015
Gain and loss from disposal of financial assets and liabilities at fair value through profit or loss		
Interest income	$16,202	$42,104
Stock dividends	139	404
Gain (loss) on disposal－non-derivative instruments	20,278	4,037
Gain (loss) on disposal－derivative instruments	64,904	(121,707)
Subtotal	$101,523	($75,162)
Valuation gains and losses on financial assets and liabilities at fair value through profit or loss		
Non-derivative instruments	($7,123)	$3,905
Derivative instruments	22,097	(683)
Subtotal	$14,974	$3,222
Total	$116,497	($71,940)

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

Items	2016	2015
Stock dividend	$4,692	$2,078
Gain on disposal		
Bond	$53,722	$22,246
Stock and funds	13,324	7,751
Subtotal	$67,046	$29,997
Loss on disposal		
Bond	$5,693	$12,016
Stock and funds	8,397	6,210
Subtotal	$14,090	$18,226
Total	$57,648	$13,849

6.29 Exchange Gain (Loss)

Items	2016	2015
Exchange gain (loss) - sight	$33,823	$82,170
Exchange gain (loss) - FX conversion, forwards	(47,354)	151,637
Exchange gain (loss) - revaluation	—	(153)
Total	($13,531)	$233,654

6.30 Gain on Reversal of Impairment (Loss) on Assets

Items	2016	2015
Loss on impairment of financial assets with no active market	$ —	($23,586)

6.31 Net gain (loss) on financial assets carried at cost

Items	2016	2015
Dividend income	$58,750	$52,827
Compensation for directors and supervisors	995	1,203
Total	$59,745	$54,030

6.32 Net investment gain (loss) on debts investment without an active market

Items	2016	2015
Gain (loss) on disposal－bonds	$ —	$10,606

6.33 Other Net Non-Interest Income

Items	2016	2015
Rent revenues	$9 574	8,303
Revenues from converting unpaid accounts payable	4,827	2,681
Revenues from converting Lehman Brothers Distribution	—	2,311
Other net gain or (loss)	36,884	35,943
Total	$51,285	$49,238

6.34 Employee Benefit Expense

Items	2016	2015
Wages and salaries	$1,243,134	$1,245,299
Labor and health insurance fees	93,208	92,347
Pensions costs (Note)	130,471	134,294
Other employee benefits	10,542	10,681
Total	$1,477,355	$1,482,621

(Note): Including additional pension payments in FY 2016 and 2015 respectively $1,517 thousand and $2,307thousand.

(1) The Bank and its subsidiaries have 942 and 948 employees as of December 31 2016 and December 31 2015, respectively.

(2) According to the Company Act as amended in May 2015, and the Articles of Incorporation of BOK after their amendment on June 23 2016, BOK may appropriate 5% and no more than 1.25% of its earnings before taxation and deduction for remuneration for employees and Directors as remuneration for employees and Directors. The estimated remuneration to employees and Directors in 2016 amounted to TWD 36,880 thousand and TWD 9,220 thousand, respectively. These amounts were estimated on the basis of 5% and 1.25% of earnings before taxation and deduction for remuneration for employees and Directors. The remuneration for employees and Directors in 2015 were estimated at TWD 34,600 thousand and TWD 8,640, respectively.

(3) BOK passed the proposals for the remuneration to employees and Directors for the fiscal years 2016 and 2015 in the Board sessions dated March 16 2017 and March 17 2016, respectively. The amounts recognized in the financial statements are shown below:

Items	2016		2015	
	Remuneration to employees	Remuneration to Directors	Remuneration to employees	Remuneration to Directors
Resolved amount for distribution	$35,498	$8,875	$34,249	$8,562
Recognized amount in annual report	36,880	9,220	34,600	8,640
Amount difference	($1,382)	($345)	($351)	($ 78)

A. The differences between the estimates determined by the Board and the amounts presented in the financial statements for 2016 and 2015 are mainly from estimation and have been recognized as income or loss in 2017 and 2016.

B. The remuneration of employees in 2016 as mentioned was paid in cash and in 2015 paid by stocks. The quantity of stocks for release as remuneration of employees in 2015 was 3,857 thousand shares, which was based on the division of the amount of TWD 34,249 thousand as resolved by the Board by the closing price on the day before the resolution of the Board at TWD 8.88/share.

C. The regular session of the Shareholders' Meeting dated June 23 2016 resolved to amend the Articles of Incorporation regarding the remuneration of employees and Directors in 2015.

(4) The regular session of the Shareholders' Meeting dated June 17 2015 resolved to distribute bonuses to the employees and Directors and Supervisors in 2014 amounting to TWD 32,905 thousand and TWD 8,226 thousand, respectively, while employee bonuses amounted to TWD 32,000 thousand and bonus for Directors and Supervisors amounted to TWD 8,220 with difference of TWD 5 thousand and 6 thousand from the amount stated in the financial statements, respectively. The differences were recognized as income in 2015.

(5) For information on the resolution of the Board on the issues of remuneration to employees and Directors in 2017 and 2016, visit the "MOPS" website of Taiwan Stock Exchange Corporation.

6.35 Depreciation and Amortization Expense

Items	2016	2015
Depreciation expense- property and equipment	$60,747	$60,504
Amortisation expense- intangible assets and other assets	22,198	21,003
Total	$82,945	$81,507

6.36 Other Business and Administrative Expense

Items	2016	2015
Taxes and dues (Note)	$223,864	$247,855
Rental expense	127,669	121,993
Insurance expenses	82,206	80,196
Professional service fees	65,123	55,468
Repair expense	30,130	33,294
Utility expense	20,190	23,411
Consumables	22,319	22,865
Public relations fees	17,784	16,573
Postage & handling	12,283	12,946
Other	132,285	112,025
Total	$733,853	$726,626

6.37 Income Tax

(1) Components of income tax expense:

A. Income tax expense (benefit) recognized as income:

Item	2016	2015
Current income tax		
Current tax expense	$13,535	$102,657
10% Surtax on undistributed retained earnings	—	5,589
Adjustment for prior periods	1,529	140
Subtotal	$15,064	$108,386
Deferred tax expense		
Origination and reversal of temporary differences	$41,628	($46,453)
Income tax expense (benefit)	$56,692	$61,933

B. Income tax benefit (expense) related to other comprehensive income:

Item	2016	2015
Reassessment of defined benefit plant	$5,098	$6,490
Difference from conversion of financial statement of foreign operations	(51)	4,059
Total	$5,047	$10,549

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

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

Item	2016	2015
Pre-tax income	$704,996	$653,264
Income tax from pre-tax income calculated at a statutory rate of 17%	$119,849	$111,055
Adjustments:		
Effects of income tax exemption	(84,560)	(54,018)
Effects of other tax adjustments		
Tax-book difference on the disposal of debt investments without an active market	—	(17,407)
Excessive provision for NPL	(10,134)	57,524
Unrealized (realized) Pension Expenses	(105,411)	5,035
Others	18,217	(6,099)
Loss in current period for deduction of income tax in subsequent periods	75,574	—
Differences in general tax amounts and basic tax amounts	—	6,567
Income tax adjustment for prior period	1,529	140
Net changes in deferred tax assets	41,628	(46,453)
10% Surtax on undistributed retained earnings	—	5,589
Income tax expense (benefit)	$56,692	$61,933

(3) Deferred income tax assets deriving from temporary difference

FY 2016

Items	Amount at beginning of period	Recognized as income	Recognized as other incomes	Amount at ending of period
Net determined benefit liabilities	$159,700	($105,411)	$5,098	$59,387
Excessive provision for bad debts	60,120	(8,597)	—	51,523
Deferral of expenses from guarantee	4,874	438	—	5,312
Deduction for carry forward loss	—	75,574	—	75,574
Others	5,194	(3,632)	(51)	1,511
Total	$229,888	($41,628)	$5,047	$193,307

FY 2015

Items	Amount at beginning of period	Recognized as income	Recognized as other incomes	Amount at ending of period
Net determined benefit liabilities	$146,785	$6,425	$6,490	$159,700
Excessive provision for NPL	10,646	49,474	—	60,120
Unrealized impairment	10,245	(10,245)	—	—
Deferral of expenses from guarantee	4,293	581	—	4,874
Others	917	218	4,059	5,194
Total	$172,886	$46,453	$10,549	$229,888

(4) Unrecognized deferred income tax assets

As of December 31, 2016 and 2015, the balance of unrecognized deferred income tax assets was nil as of the respective balance sheets dates.

(5) Imputation Tax System and Other Information:

Item	Dec. 31, 2016	Dec. 31, 2015
Balance of imputation tax credit	$149,485	$158,455
Unappropriated earnings-before June 30, 1998	—	—
Unappropriated earnings-July 1, 1998 & thereafter	620,704	607,376

Item	2016	2015
Ratio of deductible tax credit for the appropriation of earnings	20.48% (Estimated)	20.83% (Actual)

According to the Tax Code, the earnings on or before 1998 for distribution to shareholders not residing in the Republic of China shall be entitled to tax deduction in proportion to the tax payable as of the distribution days. Article 66-6 of the Tax Code after amendment requires that individual shareholders residing in the Republic of China shall be entitled to half of the deduction of tax payable. This new law shall be applicable to the distribution of earnings from January 1 2015.

The tax deductible allocated to the shareholders of the Bank shall be based on the balance of the tax deduction account for shareholders as of the dividend day in the calculation. As such, the tax deduction rate estimated in 2016 may vary with actual tax deduction rate due to the Tax Code and adjustment shall be made.

(6) The corporate income tax of the Bank has been approved by the taxation authorities until FY 2014.

6.38 Other Comprehensive Income

Item	2016		
	From current period	Income tax benefit (expense)	Earnings
Items not reclassified as income:			
Reassessment of defined benefit plan	($29,989)	$5,098	($24,891)
Items could be reclassified as income in the future:			
Difference from conversion of financial statement of foreign operations	298	(51)	247
Unrealized reappraisal loss of financial assets available for disposal	(71,262)	—	(71,262)
Recognized as other comprehensive income	($100,953)	$5,047	($95,906)

Item	2015		
	From current period	Income tax benefit (expense)	Earnings
Items not reclassified as income:			
Reassessment of defined benefit plan	($38,181)	$6,490	($31,691)
Items could be reclassified as income in the future:			
Difference from conversion of financial statement of foreign operations	(23,874)	4,059	(19,815)
Unrealized reappraisal loss of financial assets available for disposal	30,360	—	30,360
Recognized as other comprehensive income	($31,695)	$10,549	($21,146)

6.39 Basic and Diluted EPS

Item	2016	2015
Basic EPS		
Earnings in the current period(A)	$648,304	$591,331
Weighted-average quantity of outstanding shares in the current period (1,000 shares)	820,653	776,697
Weighted-average quantity of outstanding shares after retroactive adjustment (1,000 shares)(B)	820,653	817,085
Basic EPS (A)/(B) (NTD)	$0.79	$0.72
Diluted EPS		
Earnings in the current period (C)	$648,304	$591,331
Weighted-average quantity of outstanding shares in the current period (1,000 shares)	820,653	776,697
Influence of employee remuneration (1,000 shares)	6,651	6,105
Weighted-average quantity of outstanding shares (1,000 shares) after dilution	827,304	782,802
Weighted-average quantity of outstanding shares after retroactive adjustment for dilution (D)	827,304	823,190
Diluted EPS(C)/(D) (NTD)	$0.78	$0.72

BOK and subsidiaries may elect to distribute remuneration to employees by stock or in cash. Assuming payment for remuneration to employees by released in stock, the common shares with potential dilution effect shall be calculated as a part of the outstanding shares under the weighted-average method for the Earnings Per Share(EPS) after dilution. In calculating the diluted EPS before the Shareholders' Meeting for resolving the remuneration to employees in next fiscal year, continue the potential dilution effect of the outstanding common shares.

7. RELATED PARTY TRANSACTIONS

7.1 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

7.2 Significant transactions with related parties

(1) Credit

Name of Related Party	December 31, 2016	December 31, 2015
Kaohsiung City Government	$25,407,684	$16,870,023
Others	104,417	131,890

Name of Related Party	2016	
	Interest & service fee income	Interest Rate Range
Kaohsiung City Government	160,894	0.480%-2.235%
Others	2,038	1.245%-2.755%

Name of Related Party	2015	
	Interest & service fee income	Interest Rate Range
Kaohsiung City Government	$222,517	0.609%-2.375%
Others	2,599	1.385%-2.90%

For the years ended December 31, 2016 and 2015, 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 0.562%-10.000% and 1.000%-10.000%, respectively.

(2) Deposit

Name of Related Party	December 31, 2016	December 31, 2015
Kaohsiung City Government	$12,705,063	$13,245,842
Kaohsiung Rapid Transit Corporation	305,441	326,959
Others	445,974	425,825

Name of Related Party	2016	
	Interest expense	Interest Rate Range
Kaohsiung City Government	$34,762	0%-1.45%
Kaohsiung Rapid Transit Corporation	2,456	0.05%-1.36%
Others	6,396	0%-13.00%

Name of Related Party	2015	
	Interest expense	Interest Rate Range
Kaohsiung City Government	$55,819	0%-1.45%
Kaohsiung Rapid Transit Corporation	3,361	0%-1.36%
Others	6,543	0% -13.00%

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

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

(3) Lease

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

FY 2016:

Leased Property	Lease Term	Payment Method	Rental Expense
Premise of Hsiao Kang Branch	2016.1. 1-2018.12.31	Half-yearly payment	$208
Premise of Yen Cheng Branch	2014.1. 1-2016.12.31	Half-yearly payment	732
Premise of Wan Nei Branch	2016.1. 1-2018.12.31	Half-yearly payment	1,060
Premise of Shih Fu Branch	2016.1. 1-2018.12.31	Half-yearly payment	231
Premise of Tso Ying Branch	2015.1. 1-2017.12.31	Half-yearly payment	609
Premise of Kwei Lin Branch	2015.1. 1-2016.12.31	Half-yearly payment	507
Premise of Gangshan Benjhou Branch	2012.9. 1-2017.8.31	Half-yearly payment	405
		Total	$3,752

FY 2015:

Leased Property	Lease Term	Payment Method	Rental Expense
Premise of Hsiao Kang Branch	2014.1. 1-2015.12.31	Half-yearly payment	$209
Premise of Yen Cheng Branch	2014.1. 1-2016.12.31	Half-yearly payment	736
Premise of Wan Nei Branch	2014.1. 1-2015.12.31	Half-yearly payment	970
Premise of Shih Fu Branch	2014.1. 1-2015.12.31	Half-yearly payment	236
Premise of Tso Ying Branch	2015.1. 1-2017.12.31	Half-yearly payment	598
Premise of Kwei Lin Branch	2015.1. 1-2016.12.31	Half-yearly payment	356
Premise of Gangshan Benjhou Branch	2012.9. 1-2017.8.31	Half-yearly payment	405
		Total	$3,510

Type of lease: operating lease.

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

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

A. Loans

December 31, 2016:

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	8	20,751	14,648	14,648	—	real estate, credit	No
Residential mortgage	10	84,617	76,947	76,947	—	real estate	No
Other loans	Hsu〇〇	944	—	—	—	NCD	No
Other loans	Chou 〇〇	1,923	1,821	1,821	—	real estate	No
Other loans	Lin 〇〇	28,000	—	—	—	real estate	No
Other loans	Dai〇〇	3,000	3,000	3,000	—	real estate	No
Other loans	Ko 〇〇	3,500	3,500	3,500	—	real estate	No
Other loans	Sung 〇〇	4,500	4,500	4,500	—	real estate	No

December 31, 2015:

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	8	18,121	12,404	12,404	—	real estate, credit	No
Residential mortgage	11	86,359	81,963	81,963	—	real estate	No
Other loans	Chou 〇〇	2,005	1,923	1,923	—	real estate	No
Other loans	Tsao 〇〇	1,104	—	—	—	real estate	No
Other loans	Lin 〇〇	28,000	28,000	28,000	—	real estate	No
Other loans	Chen 〇〇	710	—	—	—	NCD	No
Other loans	Ko 〇〇	3,100	3,100	3,100	—	real estate	No
Other loans	Ko 〇〇	500	—	—	—	real estate	No
Other loans	Sung 〇〇	4,500	4,500	4,500	—	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, 2016 and 2015, allowance for doubtful accounts provided for loans to related parties amounted to $46 thousand and $68 thousand, respectively. For years ended December 31, 2016 and 2015, bad debt expenses recognized (reversal) in relation to loans to related parties amounted to ($22) thousand and ($20) thousand, respectively.

B. Guarantee: None.

C. Derivatives: None.

D. Disposal of non-performing loans: None.

(5) Remuneration to key managerial officers

Items	2016	2015
Salaries and other short-term employee benefits	$43,417	$42,252
Post-employment benefits	2,576	3,296
Other long-term employee benefits	—	—
Termination benefits	—	—
Share-based payment	—	—
Total	$45,993	$45,548

8. PLEDGED ASSETS

Items	December 31, 2016	December 31, 2015
Negotiable certificate of deposit	$6,600,000	$6,600,000
Government bond (par value)	877,800	793,400
Foreign bond	1,083,907	972,323
Margin for R/P bonds	37,004	10,205
Total	$8,598,711	$8,375,928

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 and its subsidiaries 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.

9. SIGNIFICANT OR CONTINGENT LIABILITES AND COMMITMENTS

(1)As of December 31, 2016 and 2015, the Bank and its subsidiaries had the Following Commitments:

Items	December 31, 2016	December 31, 2015
Securities sold with agreement to repurchase	$1,106,351	$1,074,513
Securities purchased with agreement to resell	3,350,099	20,070,107
Loan yet to be appropriated by the borrower (Note)	65,115,951	69,053,823
Credit line facility yet to be utilized by the credit card holder	6,891	6,492
Standby letter of credit yet to be utilized by the client	1,219,686	1,076,873
Guarantees	2,904,774	5,162,369
Amounts collected on behalf of customers	12,135,635	13,705,186
Agency loans payable	4,057,218	4,691,062
Agency sale of traveller's checks	37,628	66,402
Trust assets	20,335,931	19,394,376
Marketable securities held under custody	29,566,095	30,978,305

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

(2) BOK detected in December 2016 that banking staff Chu xx took a loan from the Bank in the name of a relative, and collected an excessive processing fee from the loan customer, which is an act of fraud. As of December 31 2016, Chu owed BOK about TWD 7,000 thousand in principal, interest, and excessive payment from this customer. The Personnel Evaluation Committee has punished Chu with 2 major demerit points at one time with dismissal from office on December 29 2016. The auditing function of BOK has also completed the investigation. BOK has pressed charges against Chu and has claimed an amount for losses through civil action. The possible loss will be determined depending on the clarification of liabilities by the judiciary and the claim adjustment by the insurance company.

10. SIGNIFICANT DISASTER LOSS: None.

11. SIGNIFICANT SUBSEQUENT EVENT:

The Board of BOK passed a motion to raise capital amounting to TWD 1.8 billion in its session of October 13 2016. The proposal was approved by FSC on January 9 2017. It is expected that 180,000 thousand new shares of common stock will be offered at TWD 10/share and the offering day is set on March 22 2017.

12. OTHER

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

Balance sheets of Trust Account

Trust Assets	December 31, 2016	December 31, 2015
Bank deposit	$555,444	$668,216
Financial Assets		
Stock	25,520	13,157
Investment in funds	17,372,610	16,796,092
Real Estate	2,382,357	1,916,911
Total	$20,335,931	$19,394,376

Balance sheets of Trust Account

Trust Liabilities	December 31, 2016	December 31, 2015
Medium and long - term loans	$678,733	$549,400
Trust capital	19,659,866	18,913,386
Retained earnings	(2,668)	(68,410)
Total	$20,335,931	$19,394,376

Inventory of Assets of Trust Account

Property Items	December 31, 2016	December 31, 2015
Bank deposit	$555,444	$668,216
Stocks	25,520	13,157
Investment in funds	17,372,610	16,796,092
Real estate	2,382,357	1,916,911
Total	$20,335,931	$19,394,376

Income Statement of Trust Account

Property Items	December 31, 2016	December 31, 2015
Trust Revenue		
Interest income	$5,231	$6,379
Investment income	525	334
Total trust revenue	$5,756	$6,713
Trust Expense		
Administrative expense	$6,488	$7,673
Taxes	326	321
Interest expense	—	—
Other expenses	36	349
Total trust expense	$6,850	$8,343
Net income (loss) before income tax	($1,094)	($1,630)
Income tax	(37)	(368)
Net income (loss)	($1,131)	($1,998)

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

12.2 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 its subsidiaries and the financial holding company and other subsidiaries: the Bank and its subsidiaries is not a subsidiary of a financial holding company.

12.3 Fair Value and Hierarchy Information of Financial Instruments

(1) Information on fair value

A. Overview

Fair value is the price at which the participants or orderly trade in market receive from the selling of assets or the pay for the transfer of liabilities.

Initial recognition of financial instruments shall be booked at fair value, which will be the transaction price under most circumstances. Subsequent measurements will also be conducted at fair value except some of the financial instruments, which shall be evaluated on the basis of the cost after amortization. The prominent evidence of fair value is the quotation of the financial instruments in active market. If there is no active market for the financial instruments, the Bank and its subsidiaries will adopt pricing techniques or consult the information from Bloomberg, Reuters, or quotations from counterparties in the measurement of the fair value of the financial instruments.

B. Definition of the 3 classes of fair value

Class I

The input value of this category of financial instruments in active market shall be the open quotation of financial instruments of the same kind in active market. Active market as referred to are market featuring the following conditions: the subject matters of trade are homogenous; the buyers and the sellers can buy and sell at free will with information available to the public. The Bank and its subsidiaries invested in the stocks and beneficiary certificates listed in TWSE and GTSM are hot items for investment in the bonds of the Central Government of Taiwan and derivatives with open quotation in open market at fair value. They all are Class I assets.

Class II

The input value of this category of financial instruments includes the observable input value directly (such as price) or indirectly (inference from price) obtained from active market further to the open quotation and observable price in active market. The Bank and its subsidiaries invested in government bonds, corporate bonds, bank debentures, convertible bonds, majority of the derivatives and the bank debentures issued by the Bank and its subsidiaries are Class II assets.

Class III

The input value of this category of financial instruments refers to the input parameters for measurement of fair value and it is not based on the information available from market (unobservable input parameters, such as: pricing model of options basing on historical volatility curve. But historical volatility cannot stand for the overall participation in market and the projected value of market volatility in the future). Some of the derivatives and equity instruments with no active market invested by the Bank and its subsidiaries belonged to this class of assets.

(2) Measurement on the basis of fair value

A. Information on the classes of fair value

The financial instruments of the Bank and its subsidiaries at fair value shall be measured on the basis of repetition at fair value. Information on the class of assets of the Bank and its subsidiaries at fair value is shown below:

Items	December 31 2016			
	Total	Quotation of the same asset in active market (Class I)	Other major observable input value (Class II)	Major unobservable input value (Class III)
Measurement of repetitive fair value				
Non-derivative assets and liabilities				
Assets				
Financial assets at fair value through profit and loss accounts				
Stock investment	$16,015	$16,015	$ —	$ —
Fund investment	30,470	30,470	—	—
Bond investment	150,834	101,805	49,029	—
Bill investment	3,784,211	—	3,784,211	—
Total	$3,981,530	$148,290	$3,833,240	$ —
Financial assets available for sale				
Stock investment	$117,087	$117,087	$ —	$ —
Bond investment	6,150,263	2,623,486	3,526,777	—
Others	25,030,726	540	25,030,186	—
Total	$31,298,076	$2,741,113	$28,556,963	$ —
Derivative financial assets and liabilities				
Assets				
Financial liabilities at fair value through profit and loss accounts	4,721	—	4,721	—
Liabilities				
Financial liabilities at fair value through profit and loss accounts	1,349	—	1,349	—

Items	December 31 2015			
	Total	Quotation of the same asset in active market (Class I)	Other major observable input value (Class II)	Major unobservable input value (Class III)
Measurement of repetitive fair value				
Non-derivative assets and liabilities				
Assets				
Financial assets at fair value through profit and loss accounts				
Fund investment	$1,631	$1,631	$ –	$ –
Bond investment	443,166	320,104	123,062	–
Bill investment	3,434,623	–	3,434,623	–
Total	$3,879,420	$321,735	$3,557,685	$ –
Financial assets available for sale				
Stock investment	$167,350	$167,350	$ –	$ –
Bond investment	8,056,055	4,878,326	3,177,729	–
Others	28,613,286	12,793	28,600,493	–
Total	$36,836,691	$5,058,469	$31,778,222	$ –
Derivative financial assets and liabilities				
Assets				
Financial liabilities at fair value through profit and loss accounts	1,029	–	1,029	–
Liabilities				
Financial liabilities at fair value through profit and loss accounts	19,754	–	19,754	–

B. Pricing techniques for fair value measurement

(A) Financial instruments

If there is open quotation in the open market for the financial instruments, the open quotation in the open market shall be the fair value. The market price announced by major exchanges and determined as the OTC market for the trading of popular central government bonds are the foundation for fair value of quotation of equity instruments listed in TWSE (GTSM) and debt instruments that have active market.

If the open quotations from the exchanges, brokers, underwriters, industry associations, and pricing service institutions or the competent authority can be accessible timely and regularly, and such quotations can stand for the routine fair trade in market, such financial instruments have open quotation in the active market. If the aforementioned conditions cannot be satisfied, the market is not active. In general, a market with wide spread buying and selling, significant variation in the buying or selling price or where trade volume is low will be an inactive market.

Further to the aforementioned financial instruments that have an active market, the fair value of all other financial instruments shall be obtained from pricing techniques or quotations from counterparties. For fair value obtained from pricing techniques, the fair value of financial instruments in similar nature and features at present time, the cash flow discount method or other pricing techniques, including the model for the calculation on the basis of the information from the market as of the consolidated balance sheet date (such as the yield rate curve of GTSM and the average quotation of commercial papers by Reuters).

For financial instruments with no standardized estimation and are not so complicated, such as debt instruments with no active market, interest rate swap, FX swap contract and options, the Bank and its subsidiaries will adopt the pricing techniques extensively used by market participants. The parameters commonly used in the pricing model of this type of financial instruments are observable market information.

The evaluation of derivatives is based on the pricing model commonly accepted by market users, such as the discount method and option pricing model. Forwards contracts are generally based on the forwards rate in pricing. Structured derivatives are based on the appropriate option pricing model (such as Black-Scholes model) or other pricing methods, such as the Monte Carlo simulation.

(B) Non-financial instruments: None.

C. Fair value adjustment

If the Bank and its subsidiaries found that the pricing model does not include related factors as suggested by the participants in market, the Bank and its participants will adjust the fair value. Such adjustment will mainly relate to risk parameters and the capital market.

D. Transfer between Class I and Class II assets

In 2016 and 2015, the Bank and its subsidiaries did not have any transfer between Class I Assets and Liabilities and Class II Assets and Liabilities.

E. Changes in Class III: None.

F. Quantified information on value fair measured on the basis of major unobservable input value (Class III): None.

G. Measurement process for fair value classified as Class III: Not applicable.

H. For measurement of Class III fair value, the sensitivity analysis of the fair value on assumption that could possibly and reasonable be substituted: Not applicable.

(3) Not at fair value

A. Information on fair value

For financial instruments of the Bank and its subsidiaries not at fair value, such as cash and cash equivalents, due from banks and call loans to banks, R/P bills and bond investment, receivables, discounts and loans, due to Central Bank and other banks, R/P bills and bond liabilities, payables, deposits and remittances, payable bank debentures, and other financial liabilities, which book values approximated fair value within reasonable range, or investment in debt instrument without active market or financial assets on the basis of cost that have not quotation from active market, and may result significant difference in value from measurement. The fair value of these instruments cannot be reliably measured and therefore not disclosed as fair value except the following.

Items	December 31 2016	
	Book value	Fair value
Financial assets		
Financial assets held-to-maturity	21,609,828	21,449,969

Items	December 31 2015	
	Book value	Fair value
Financial Assets		
Financial assets held-to-maturity	11,736,176	11,820,709

Refer to Note 12.3 (3), for information on adjustment of fair value

B. Information on the classes of fair value

Assets and Liabilities	December 31 2016			
	Total	Class I	Class II	Class III
Financial assets				
Financial assets held-to-maturity	21,449,969	12,515,006	8,934,963	–

Assets and Liabilities	December 31 2015			
	Total	Class I	Class II	Class III
Financial assets				
Financial assets held-to-maturity	11,820,709	6,393,627	5,427,082	–

C. Pricing techniques

The Bank and its subsidiaries adopted the following methods and assumption in the estimation of financial instruments not at fair value:

(A) The maturity date or prices for transactions in the future of cash and cash equivalents, due from Central Bank and call loans to banks, R/P bill and bond investment, receivable, due to Central Bank and other banks, R/P bill and bond liabilities, payables and refundable security deposit approximated the book value. The book value as of the balance sheet date is used for the estimation of fair value.

(B) Discounts and loans (including overdue accounts): the Bank and its subsidiaries set the interest rate for lending on the basis of the prime rate plus a percentage (floating rate). This can reflect the market interest rate. It is reasonable to consider the book value of these instruments and the anticipated recoverable amount as the fair value. For mid to long-term loans at fixed rates, fair value is estimated on the basis of the discount of anticipated cash flows. This portion of loans just accounted for a tiny portion of the total loans and it is reasonable to estimate the fair value on the basis of the anticipated recoverable amount at book value.

(C) Financial assets held-to-maturity: if there is open quotation in the open market, the market price shall be the fair value. If there is no market price available, use pricing method for estimation or the quotation from counterparties.

a. Central Government Bond in NTD: pricing is made on the basis of the "Fair Value of Bonds from Different Issues" provided by GTSM.

b. Corporate bonds and bank debentures in NTD: discount the future cash flow on the basis of the yield curve provided by GTSM for the present value of evaluation or the fair value provided by GTSM.

(D) Deposits and remittances: the fair value shall be determined by nature of the business. If market interest rate (market price) is adopted, and the maturity of the deposits is within 1 year, the use of book value for the estimation of fair value shall be reasonable. For long-term deposits at fixed rate, fair value shall be estimated on the basis of the discount value of anticipated cash flow. If the deposits have maturities within 3 years, it is reasonable to estimate the fair value on the basis of book value.

(E) Payable bank debentures: they are the bank debentures issued by the Bank and its subsidiaries. Fair value is estimated on the discount value of anticipated cash flow, which approximates the book value.

(F) Other financial assets – investment in debt instruments with no active market: if there is a successful deal or there is a quotation from market maker, the nearest bid price and quotation shall be used as the basis for the estimation of fair value. If there is no market price available, pricing method shall be used. The discount value of cash flow from the estimation and assumption under the pricing method shall be the fair value.

(G) Other financial assets – financial assets on the basis of cost: there is no open quotation from active market, and the range of fair value estimation is wide, or the probability of the all estimates within the range of variation cannot be reasonably assessed that the fair value cannot be reliably measured. The fair value cannot be disclosed.

12.4 Financial Risk Management

(1) Overview

The primary objectives of the Bank and its 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 its 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 its 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.

(2) Risk Management Structure

The Risk Management Department of the Bank and its 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.

(3) Credit Risk

A. The sources and definition of credit risk

The Bank and its 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 its 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, acceptances, investments in debt instruments and derivatives. The major off-balance-sheet items which expose the Bank and its subsidiaries to credit risk are financial guarantees, letters of credit and loan guarantees.

B. Credit risk management policies

In order to ensure that credit risk is controlled with an acceptable level, the Bank and its subsidiaries 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. 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 its 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 and its 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 its 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 its 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 its 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 its 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 its 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 its 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 its 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

C. Credit risk hedging or mitigation policy

(A) Collateral

The Bank and its 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 its 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 and treating the whole outstanding balance as matured, 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 its subsidiaries stipulate respective credit limits for loans granted to a single counterparty and a single group to avoid concentration of risks. The Bank and its subsidiaries 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 its 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 respective 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 its 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.

(D) Other means for reinforcement of credit

The Bank and its subsidiaries have specified the set-off clause in the loan agreements, and it is explicitly stated that in case of credit problems, the deposits of the borrowers at the accounts of the Bank and its subsidiaries shall be set off to cover the liabilities so as to reduce credit risk.

D. 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, 2016	December 31, 2015
Irrevocable loan commitments	6,631,276	8,641,054
Irrevocable credit card commitments	6,891	6,492
Stand-by letter of credit	1,219,686	1,076,873
Financial guarantees	2,904,774	5,162,369
Total	10,762,627	14,886,788

Information on the collateral, general agreement on net amount delivery and other credit enhancement on and off the balance sheet that related to maximum exposure of credit risk is shown below:

December 31 2016	Collaterals	General agreement on net amount delivery	Other credit enhancement	Total
On the sheet items				
Receivables				
－Credit card	$ －	$ －	$56,137	$56,137
－Others	103,588	－	－	103,588
Discount and loans	102,397,913	－	4,640,221	107,038,134
Subtotal	$102,501,501	$ －	$4,696,358	$107,197,859
Off the sheet items				
Irrevocable promise of financing	$914,646	$ －	$1,558	$916,204
Undrawn credit limit granted to customers	93,407	－	－	93,407
Other guarantees	261,184	－	－	261,184
Subtotal	$1,269,237	$ －	$1,558	$1,270,795
Total	$103,770,738	$ －	$4,697,916	$108,468,654

December 31 2015	Collaterals	General agreement on net amount delivery	Other credit enhancement	Total
On the sheet items				
Receivables				
－Credit card	$ －	$ －	$54,418	$54,418
－Others	109,371	－	－	109,371
Discount and loans	100,953,460	－	5,430,429	106,383,889
Subtotal	$101,062,831	$ －	$5,484,847	$106,547,678
Off the sheet items				
Irrevocable promise of financing	$1,058,818	$ －	$1,359	$1,060,177
Undrawn credit limit granted to customers	34,162	－	－	34,162
Other guarantees	233,921	－	－	233,921
Subtotal	$1,326,901	$ －	$1,359	$1,328,260
Total	$102,389,732	$ －	$5,486,209	$107,875,938

The Bank and its 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 its subsidiaries adopt more stringent credit review procedures and conduct regular post-loan reviews.

E. 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 and its 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, 2016 and 2015, there was significant concentration of credit risk arising from loans to the Kaohsiung City Government totaling $25,407,684 thousand, representing 13.95% of total loans and $16,870,023 thousand, representing 9.67% of total loans, respectively. Information on significant concentration of credit risks of The Bank and its 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, 2016		December 31, 2015	
	Amount	%	Amount	%
1. Private enterprise	72,589,588	39.86	71,654,938	41.08
2. Public-sector enterprise	4,633,763	2.54	3,758,061	2.15
3. Governmental organisation	25,504,731	14.00	16,355,588	9.38
4. Not-for-profit organisation	117,387	0.06	115,408	0.07
5. Private individual	65,422,583	35.92	69,812,186	40.02
6. Financial institutions	13,864,326	7.62	12,732,925	7.30
Total	182,132,378	100.00	174,429,106	100.00

(B) By region:

Region	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
R.O.C.	166,155,112	91.22	158,951,398	91.13
Unite States	4,167,973	2.29	5,518,345	3.16
Asia	10,423,104	5.72	8,516,013	4.88
Europe	994,913	0.55	766,393	0.44
Africa	28,571	0.02	279,950	0.16
Oceania	362,705	0.20	397,007	0.23
Total	182,132,378	100.00	174,429,106	100.00

(C) By Collateral

Type of Collateral	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Unsecured	69,245,954	38.01	60,282,006	34.56
Secured	112,886,424	61.99	114,147,100	65.44
— Financial collateral	1,395,164	0.77	7,903,055	4.53
— Accounts receivable	358,033	0.20	370,543	0.21
— Real estate property	95,396,994	52.38	94,205,655	54.01
— Guarantee	10,193,074	5.60	10,469,678	6.00
— Other	5,543,159	3.04	1,198,169	0.69
Total	182,132,378	100.00	174,429,106	100.00

F. Credit quality and impairment assessment of financial assets

Financial assets held by the Bank and its 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）									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				
Dec. 31, 2016	161,226	165,211	504,574	—	327,131	—	691	1,589	1,160,422	5,433	1,165,855	70,976	1,236,831
Dec. 31, 2015	185,474	143,185	484,521	—	195,446	—	270	10,411	1,019,307	3,819	1,023,126	70,002	1,093,128

Receivables	Amount provided for impairment loss (D)			Net (A)+(B)+(C)-(D)
	With objective evidence of impairment	With no objective evidence of impairment	Subtotal	
Dec. 31, 2016	75,008	12,295	87,303	1,149,528
Dec. 31, 2015	55,227	10,942	66,169	1,026,959

b. Credit quality of discounts and loans

December 31, 2016	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	
On-balance-sheet Items							
Discounts and loans	175,221,112	593,897	1,835,112	177,650,121	346,036	1,688,306	175,615,779
Overdue accounts that are not transferred from loans	—	—	30,667	30,667	10,514		20,153
Off-balance-sheet Items							
Commitments and guarantees	—	—	—	—	—	—	—
Guarantees receivable	2,878,545	26,229	—	2,904,774	—	60,300	2,844,474
L/C receivable	1,219,111	575	—	1,219,686	—	—	1,219,686
Total	179,318,768	620,701	1,865,779	181,805,248	356,550	1,748,606	179,700,092

December 31, 2015	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	
On-balance-sheet Items							
Discounts and loans	165,949,849	706,702	1,305,979	167,962,530	245,178	1,773,434	165,943,918
Overdue accounts that are not transferred from loans	—	—	30,667	30,667	10,414	—	20,253
Off-balance-sheet Items							
Commitments and guarantees	—	—	—				
Guarantees receivable	5,140,673	21,696	—	5,162,369	—	80,300	5,082,069
L/C receivable	1,076,238	635	—	1,076,873	—	—	1,076,873
Total	172,166,760	729,033	1,336,646	174,232,439	255,592	1,853,734	172,123,113

c. Credit quality of discounts and loans neither past due nor impaired according to individual client rating

December 31, 2016	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
Consumer Finance												
－Residential mortgage	10,119,812	1,142,946	759,566	14,404,900	－	－	－	－	－	－	4,228,587	30,655,811
－Cash card	－	－	－	－	3,565	533,777	188,702	8,635	－	670	－	735,349
－Microcredit	－	－	－	－	12,373	149,339	40,065	45,972	9,531	3,681	15,562	276,523
－Student loan	－	－	－	－	－	－	－	－	－	－	5,334,664	5,334,664
－Other	－	－	－	－	637,899	17,078,312	4,227,893	3,802,508	719,400	180,545	414,697	27,061,254
Total	10,119,812	1,142,946	759,566	14,404,900	653,837	17,761,428	4,456,660	3,857,115	728,931	184,896	9,993,510	64,063,601

December 31, 2016	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
Corporate Finance										
－Secured	－	1,182,997	1,513,986	1,389,505	7,310,413	12,966,376	9,347,578	17,333,662	6,752,326	57,796,843
－Unsecured	25,407,684	1,970,104	3,094,160	2,142,056	5,257,477	6,306,519	2,275,802	2,763,038	8,241,484	57,458,324
Total	25,407,684	3,153,101	4,608,146	3,531,561	12,567,890	19,272,895	11,623,380	20,096,700	14,993,810	115,255,167

December 31, 2015	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
Consumer Finance												
－Residential mortgage	11,561,599	1,380,109	882,239	16,320,994	－	－	－	－	－	－	4,973,194	35,118,135
－Cash card	－	－	－	－	12,778	581,748	220,591	9,091	1,999	666	－	826,873
－Microcredit	－	－	－	－	19,279	469,620	138,082	116,613	11,470	4,722	28,388	788,174
－Student loan	－	－	－	－	－	－	－	－	－	－	5,577,911	5,577,911
－Other	－	－	－	－	1,470,372	16,208,789	4,227,259	3,075,520	759,847	153,039	289,258	26,184,084
Total	11,561,599	1,380,109	882,239	16,320,994	1,502,429	17,260,157	4,585,932	3,201,224	773,316	158,427	10,868,751	68,495,177

December 31, 2015	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
Corporate Finance										
－Secured	－	173,821	398,919	2,232,332	9,624,348	14,600,634	5,503,219	13,364,410	7,292,572	53,190,255
－Unsecured	16,870,023	3,382,111	1,587,047	2,137,261	6,431,176	7,068,670	2,660,334	3,095,504	7,249,202	50,481,328
Total	16,870,023	3,555,932	1,985,966	4,369,593	16,055,524	21,669,304	8,163,553	16,459,914	14,541,774	103,671,583

d. Credit quality of investment in securities

December 31, 2016	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	31,122,682	57,767	117,627	31,298,076	—	—	31,298,076	—	31,298,076
—Investment in bonds	6,092,496	57,767	—	6,150,263	—	—	6,150,263	—	6,150,263
—Investment in stocks	—	—	117,087	117,087	—	—	117,087	—	117,087
—Other	25,030,186	—	540	25,030,726	—	—	25,030,726	—	25,030,726
Held-to-maturity financial assets	21,481,736	128,092	—	21,609,828	—	—	21,609,828	—	21,609,828
—Investment in bonds	21,481,736	128,092	—	21,609,828	—	—	21,609,828	—	21,609,828
—Other	—	—	—	—	—	—	—	—	—
Other Financial Assets	—	—	—	—	—	—	—	—	—
—Investment in stocks	—	—	—	—	—	—	—	—	—
—Investment in bonds	—	—	—	—	—	—	—	—	—
—Other	—	—	—	—	—	—	—	—	—

December 31, 2015	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	36,574,096	82,452	180,143	36,836,691	—	—	36,836,691	—	36,836,691
—Investment in bonds	7,973,603	82,452	—	8,056,055	—	—	8,056,055	—	8,056,055
—Investment in stocks	—	—	167,350	167,350	—	—	167,350	—	167,350
—Other	28,600,493	—	12,793	28,613,286	—	—	28,613,286	—	28,613,286
Held-to-maturity financial assets	11,441,690	294,486	—	11,736,176	—	—	11,736,176	—	11,736,176
—Investment in bonds	11,441,690	294,486	—	11,736,176	—	—	11,736,176	—	11,736,176
—Other	—	—	—	—	—	—	—	—	—
Other Financial Assets	131,260	—	1,161,567	1,292,827	—	—	1,292,827	—	1,292,827
—Investment in stocks	—	—	1,161,567	1,161,567	—	—	1,161,567	—	1,161,567
—Investment in bonds	131,260	—	—	131,260	—	—	131,260	—	131,260
—Other	—	—	—	—	—	—	—	—	—

G. 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:

Items	December 31, 2016			December 31, 2015		
	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	3,850	1,583	5,433	1,650	2,169	3,819
－Credit cards	3,155	282	3,437	508	469	977
－Interest receivable	695	1,301	1,996	1,142	1,700	2,842
Discounts and loans	335,898	284,802	620,700	379,996	349,037	729,033
Consumer Finance	308,024	208,600	516,624	355,725	313,017	668,742
－Residential mortgage	125,272	105,297	230,569	227,195	163,281	390,476
－Cash card	1,787	－	1,787	2,081	－	2,081
－Microcredit	2,170	917	3,087	2,746	1,592	4,338
－Student loan	66,238	62,545	128,783	71,422	73,142	144,564
－Other	112,557	39,841	152,398	52,281	75,002	127,283
Corporate Finance	27,874	76,202	104,076	24,271	36,020	60,291
－Secured	2,037	52,926	54,963	21,839	17,411	39,250
－Unsecured	25,837	23,276	49,113	2,432	18,609	21,041

H. Analysis of impairment of financial assets

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

Items		Total Discounts and Loans		Allowance for Doubtful Account	
		Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
With objective evidence of impairment	Individually assessed for impairment	496,221	248,101	81,200	57,900
	Collectively assessed for impairment	1,338,891	1,057,877	264,836	187,278
With no objective evidence of impairment	Collectively assessed for impairment	175,815,009	166,656,552	1,688,306	1,773,434
Total		177,650,121	167,962,530	2,034,342	2,018,612

Items		Total Accounts Receivable		Allowance for Doubtful Account	
		Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
With objective evidence of impairment	Individually assessed for impairment	67,729	66,650	67,494	48,723
	Collectively assessed for impairment	2,553	3,352	(Note)7,515	(Note)6,504
With no objective evidence of impairment	Collectively assessed for impairment	1,166,549	1,023,126	12,294	10,942
Total		1,236,831	1,093,128	87,303	66,169

(Note)：Including short-term advances-allowance for uncollectible accounts

I. Foreclosed Collaterals Management Policy

Properties foreclosed by the Bank and its subsidiaries were land and buildings. As of December 31, 2016 and 2015, the carrying amount of foreclosed properties was nil for all respective balance-sheet dates.

The collateral being accepted shall be sold at right time. This category of collateral is classified as other assets in the balance sheet. The difference between the price of disposal and the book value shall be recognized as net income other than interest – capital gain (loss) from collateral.

J. 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, 2016				
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		138,757	44,278,275	0.31	665,227	479.42
	Unsecured		65,383	67,949,262	0.10	804,005	1,229.69
Consumer Finance	Residential mortgages (Note 4)		350,128	31,419,543	1.11	288,943	82.52
	Cash cards		662	737,797	0.09	1,491	225.23
	Micro credit (Note 5)		34,954	1,231,396	2.84	36,868	105.48
	Other (Note 6)	Secured	210,366	30,477,478	0.69	235,090	111.75
		Unsecured	1,818	1,556,370	0.12	2,718	149.50
Loans total			802,068	177,650,121	0.45	2,034,342	253.64
			Amount of Overdue Accounts	Accounts Receivable Balance	Overdue Account Ratio	Allowance for Credit Loss	Bad Debt Coverage
Credit Card			924	163,110	0.57	1,791	193.83
Non-recourse factoring (Note 7)			—	—	—	—	—

Year / Month			December 31, 2015				
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		269,939	39,465,237	0.68	645,213	239.02
	Unsecured		83,743	58,686,327	0.14	804,257	960.39
Consumer Finance	Residential mortgages (Note 4)		232,307	35,877,149	0.65	297,201	127.93
	Cash cards		—	829,243	—	1,843	—
	Micro credit (Note 5)		38,969	1,302,505	2.99	34,046	87.37
	Other (Note 6)	Secured	180,173	29,722,675	0.61	229,482	127.37
		Unsecured	3,187	2,079,394	0.15	6,570	206.15
Loans total			808,318	167,962,530	0.48	2,018,612	249.73
			Amount of Overdue Accounts	Accounts Receivable Balance	Overdue Account Ratio	Allowance for Credit Loss	Bad Debt Coverage
Credit Card			589	180,378	0.33	1,303	221.22
Non-recourse factoring (Note 7)			—	—	—	—	—

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.

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

Items	December 31, 2016		December 31, 2015	
	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)	350	30	495	58
Amount exempt as a result of debt liquidation and restructuring plan (Note 2)	140,711	526	131,188	315
Total	141,061	556	131,683	373

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.

(C) Concentration of credit risk exposures of the Bank and its subsidiaries:

Year	December 31, 2016			December 31, 2015		
Ranking (Note 1)	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 (Real Estate Development Industry)	3,133,976	25.14	A Group (Ship and Parts Manufacturing Industry)	3,072,508	25.82
2	B Group (Other financial intermediation)	1,622,573	13.02	B Group (Real Estate Development Industry)	2,061,563	17.32
3	C Group (Sports Stadium Industry)	1,607,746	12.90	C Group (Sports Stadium Industry)	1,445,676	12.15
4	D Group (Real Estate Development Industry)	1,565,190	12.56	D Group (Investment Consulting Industry)	1,388,102	11.66
5	E Group (Ship and Parts Manufacturing Industry)	1,341,708	10.76	E Group (Real Estate Development Industry)	1,365,190	11.47
6	F Group (Other financial intermediation)	1,191,540	9.56	F Group (Other financial intermediation)	1,051,915	8.84
7	G Group (Real Estate Development Industry)	1,189,920	9.55	G Group (Short term accommodation)	957,200	8.04
8	H Group (Real Estate Leasing and Sale Industry)	1,020,000	8.18	H Group (Real Estate Development Industry)	952,320	8.00
9	I Group (Real Estate Development Industry)	992,649	7.96	I Group (Real Estate Development Industry)	952,228	8.00
10	J Group (Other financial intermediation)	983,938	7.89	J Group (Real Estate Development Industry)	849,984	7.14

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 guarantees.

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).

(4) Liquidity Risk

A. Sources and definition of liquidity risk

The Bank and its subsidiaries define liquidity risk as the potential financial loss that may be suffered by the Bank and its 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 and its subsidiaries 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 and its subsidiaries 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.

B. Liquidity risk management policy

With the aim of maintaining long-term profitability and business growth, the Bank and its 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 and its subsidiaries 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 and its subsidiaries 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 quarterly basis and reports such information to the Assets-Liabilities and Risk Management Committee for presentation a quarterly basis to the Board of Directors for approval. The Bank shall also establish respective limits applicable to call loans to other banks and inter-bank loans from other banks and review the limits once a year to enhance the liquidity level.

C. Maturity analysis of financial assets and non-derivative financial liabilities held for liquidity management

(A) Financial assets held for liquidity management

The Bank and its 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 its subsidiaries is made according to the number of days remaining from the balance sheets 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 sheets.

December 31, 2016	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year	Total
Due to central bank and other banks	3,774,834	4,846,700	13,400	257,350	–	8,892,284
Bills and bonds sold under agreements to repurchase	1,067,267	34,256	–	–	–	1,101,523
Accounts payable	3,259,364	189,992	37,442	89,970	96,244	3,673,012
Deposits and remittances	30,790,999	33,451,187	34,353,946	48,634,227	78,239,686	225,470,045
Bank debentures	–	–	–	–	4,000,000	4,000,000
Other capital outflow upon maturity	18,498	5,844	10,074	3,432	412,768	450,616

December 31, 2015	0~30 days	31~90 days	91~180 days	181~365 days	Over 1 year	Total
Due to central bank and other banks	6,078,972	2,696,690	35,100	344,620	–	9,155,382
Bills and bonds sold under agreements to repurchase	1,039,944	31,140	–	–	–	1,071,084
Accounts payable	2,300,305	220,119	132,411	87,520	34,757	2,775,112
Deposits and remittances	28,009,675	33,575,425	37,782,155	52,934,580	77,438,034	229,739,869
Bank debentures	3,000,000	–	–	–	4,000,000	7,000,000
Other capital outflow upon maturity	9,042	702,748	56,620	2,407	310,350	1,081,167

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 its subsidiaries. Based on the assumption that all demand deposits must be repaid within the closest maturity, as of December 31, 2016 and 2015, cash outflow in the next the 0~30 days will increase by $ 85,631,253thousand and $83,036,521thousand, respectively.

D. Maturity analysis of derivative financial liabilities

Derivatives settled in gross amounts

The Bank and its 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 and its subsidiaries derivative instruments settled in gross amounts are presented in the following table according to the days remaining from the balance sheets 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 sheets. 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 sheets. The maturity of derivative financial liabilities settled in gross amounts is analyzed as follows:

December 31, 2016	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	2,188,493	109,197	121,282	－	－	2,418,972
－Cash outflow	1,092,347	54,396	60,587	－	－	1,207,330
－Cash inflow	1,096,146	54,801	60,695	－	－	1,211,642
－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	1,092,347	54,396	60,587	－	－	1,207,330
Cash inflow subtotal	1,096,146	54,801	60,695	－	－	1,211,642
Net cashflow	(3,799)	(405)	(108)	－	－	(4,312)

December 31, 2015	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	2,196,241	2,189,835	117,117	－	－	4,503,193
－Cash outflow	1,106,531	1,096,177	58,522	－	－	2,261,230
－Cash inflow	1,089,710	1,093,658	58,595	－	－	2,241,963
－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	1,106,531	1,096,177	58,522	－	－	2,261,230
Cash inflow subtotal	1,089,710	1,093,658	58,595	－	－	2,241,963
Net cashflow	16,821	2,519	(73)	－	－	19,267

E. Maturity analysis of off-balance-sheet items

The maturity analysis of off-balance sheets items of the Bank and its subsidiaries shows the days remaining from the balance sheets 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 sheets.

December 31, 2016	Under 1 year	1 ~ 5 year	More than 5 years	Total
Standby and irrevocable loan commitment	1,945,147	4,375,774	310,355	6,631,276
Standby and irrevocable credit card commitment	465	6,426	—	6,891
Unused letter of credit	1,219,686	—	—	1,219,686
Guarantees	1,761,299	1,096,589	46,886	2,904,774
Total	4,926,597	5,478,789	357,241	10,762,627

December 31, 2015	Under 1 year	1 ~ 5 year	More than 5 years	Total
Standby and irrevocable loan commitment	2,549,423	5,900,298	191,333	8,641,054
Standby and irrevocable credit card commitment	1,270	5,222	—	6,492
Unused letter of credit	1,076,873	—	—	1,076,873
Guarantees	2,067,433	1,301,806	1,793,130	5,162,369
Total	5,694,999	7,207,326	1,984,463	14,886,788

F. Maturity analysis of lease agreement and capital expenditure commitments

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

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

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

December 31, 2016	Under 1 year	1 ~ 5 year	More than 5 years	Total
Lease agreement commitment				
Operating lease outflow (lessee)	$76,634	$133,473	$12,804	$222,911
Operating lease inflow (lessor)	10,229	27,436	468	38,133
Capital expenditure commitment	$ —	$ —	$ —	$ —

December 31, 2015	Under 1 year	1 ~ 5 year	More than 5 years	Total
Lease agreement commitment				
Operating lease outflow (lessee)	$76,371	$160,842	$19,370	$256,583
Operating lease inflow (lessor)	9,161	31,627	2,497	43,285
Capital expenditure commitment	$ —	$ —	$ —	$ —

G. Information disclosed in accordance with the "Regulations Governing the Preparation of Financial Statements by Public Banks"

(A) The maturity structure of the Bank and its subsidiaries' NTD capital

December 31, 2016							
	Total	0~10 days	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	226,371,267	33,056,823	36,184,359	14,544,536	14,187,574	22,629,338	105,768,637
Main maturing capital outflow	281,315,348	10,883,646	18,413,249	31,037,192	35,439,085	55,910,402	129,631,774
Maturity gap	(54,944,081)	22,173,177	17,771,110	(16,492,656)	(21,251,511)	(33,281,064)	(23,863,137)

December 31, 2015							
	Total	0~10 days	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	238,275,988	40,796,893	44,061,311	12,850,263	14,616,301	19,725,358	106,225,862
Main maturing capital outflow	297,187,493	10,518,677	21,505,168	34,822,749	39,698,275	60,626,173	130,016,451
Maturity gap	(58,911,505)	30,278,216	22,556,143	(21,972,486)	(25,081,974)	(40,900,815)	(23,790,589)

(B) Maturity gap of the Bank and its subsidiaries' USD capital

Unit: US$ Thousand

December 31, 2016						
	Total	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	757,013	113,112	34,873	46,175	40,196	522,657
Main maturing capital outflow	984,718	290,803	253,157	164,444	142,301	134,013
Maturity gap	(227,705)	(177,691)	(218,284)	(118,269)	(102,105)	388,644

December 31, 2015						
	Total	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main maturing capital inflow	601,540	104,849	67,370	44,083	44,414	340,824
Main maturing capital outflow	843,964	238,356	164,974	142,505	161,517	136,612
Maturity gap	(242,424)	(133,507)	(97,604)	(98,422)	(117,103)	204,212

(5) Market Risk

A. 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 its 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 its 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 its 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.

B. Market risk management policy

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

The Risk Management Department of the Bank and its 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.

C. Market risk management procedures

(A) Identification and measurement

The business units and risk management unit of the Bank and its 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, sensitivity, stress testing and value at risk, which are used to measure the impact of interest risks, exchange rate risks and equity securities risks on the investment portfolios.

(B) Control and reporting

The Risk Management Department of the Bank and its subsidiaries report the information on the execution of market risk management objectives, positions, sensitivity, stress testing and VaR to the ALCO (Assets-Liabilities and Risk Management Committee) or senior management and the departmental supervisor of the relevant business units. The Bank and its 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.

D. 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 its 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 its 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" and "Trading Book Policy and Procedures" 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 12.4 (5) I for assumptions and methods used to calculate VaR.

b. The Bank and its 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.

E. 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 its 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 its 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 its 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 12.4 (5) I 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.

F. 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.

(A) Strategy

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

(B) Management procedures

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

The Bank and its 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 its subsidiaries measure the interest rate repricing risk arising from different repricing dates of The Bank and its subsidiaries assets and liabilities. To ensure long-term profitability and business growth, the Bank and its 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.

G. 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 its subsidiaries originates from spot and forward exchange contracts as well as derivatives. The Bank and its 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 its 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 12.4 (5) I for further details.

The Bank and its 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 12.4 (5) I for further details on stress testing.

H. Management of price risk of equity securities

(A) Definition of the price risk of equity securities

Mark risk confronting the Bank and its 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 and its 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 its 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.

(D) Method of measurement

Price risk arising from trading-book equity securities is controlled on the basis of VaR. Please refer to Note 12.4 (5) I for further details.

Price risk arising from non-trading book equity securities held by the Bank and its 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.

I. Market risk valuation technique

(A) VaR (Value at Risk, VaR)

The Bank and its 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 its subsidiaries evaluate the VaR of positions held by the Historical Simulation Method. This valuation method cannot prevent losses as a result of severe market fluctuations.

Items	2016			2015		
	Average	Highest	Lowest	Average	Highest	Lowest
Foreign exchange VaR	6,528	9,652	2,394	4,785	11,688	1,136
Interest rate VaR	25,768	47,048	9,806	23,208	38,051	17,682
Equity securities VaR	12,672	22,609	5,486	12,756	17,667	9,524
Less: risk diversification effects	(15,908)	(28,870)	(6,614)	(22,673)	(31,746)	(17,122)
Total VaR	29,059	52,752	15,279	18,075	31,956	14,304

(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.

J. 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 its subsidiaries as of December 31, 2016 and 2015 (only information for the top 4 currencies is disclosed)

Unit: FCY / NTD Thousand

	December 31, 2016			
	USD	AUD	CNY	ZAR
Foreign-currency Financial Assets				
Cash and cash equivalents	$24,725	$2,836	$58,194	$113,755
Due from the Central Bank and call loans to banks	19,000	—	—	—
Financial assets at fair value through profit or loss	22	566	—	20,982
Available-for-sale financial assets	34,185	78,553	45,905	133,939
Discounts and loans	461,381	—	56,000	—
Accounts receivable	5,122	300	—	—
Held-to-maturity financial assets	166,752	77,862	194,223	235,115
Other financial Assets	—	—	—	—
Other assets	22,335	546	6,491	40,179
Total assets	$733,522	$160,663	$360,813	$543,970
Exchange rate	32.220	23.21	4.603	2.314
NTD equivalent of total assets	$23,634,079	$3,728,988	$1,660,822	$1,258,747
Foreign Currency Financial Liabilities				
Due to Central Bank and other banks	$160,000	$76,075	$ —	$250,000
R/P bills and bonds liabilities	—	45,939	—	—
Deposits and remittances	535,239	38,649	360,813	290,630
Accounts payable	7,051	—	—	2,045
Other liabilities	10,312	—	—	1,295
Total liabilities	$712,602	$160,663	$360,813	$543,970
Exchange rate	32.220	23.21	4.603	2.314
NTD equivalent of total liabilities	$22,960,036	$3,728,988	$1,660,822	$1,258,747

Unit: FCY / NTD Thousand

	December 31, 2015			
	USD	AUD	CNY	ZAR
Foreign-currency Financial Assets				
Cash and cash equivalents	$38,260	$1,045	$124,511	$8,589
Due from the Central Bank and call loans to banks	700	—	—	—
Financial assets at fair value through profit or loss	62	—	9,633	58,905
Available-for-sale financial assets	14,905	66,560	97,365	129,093
Discounts and loans	449,599	—	116,068	—
Accounts receivable	5,163	500	1,977	—
Held-to-maturity financial assets	64,048	62,694	257,126	235,761
Other financial Assets	4,037	—	—	—
Other assets	316	156	2,046	48,795
Total assets	$577,090	$130,955	$608,726	$481,143
Exchange rate	32.815	23.89	4.963	2.060
NTD equivalent of total assets	$18,937,208	$3,128,515	$3,021,107	$991,155
Foreign Currency Financial Liabilities				
Due to Central Bank and other banks	$141,000	$56,700	$285,000	$230,000
Deposits and remittances	—	42,878	—	—
Accounts payable	380,318	31,377	323,269	247,134
Other liabilities	13,284	—	—	2,714
Total liabilities	24,802	—	457	1,295
Exchange rate	$559,404	$130,955	$608,726	$481,143
NTD equivalent of total liabilities	32.815	23.89	4.963	2.060
	$18,356,842	$3,128,515	$3,021,107	$991,155

K. Information on foreign currency financial assets and liabilities with significant impacts:

Unit: NT$ Thousand

Items	December 31, 2016			December 31, 2015		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	720,379	32.220	23,210,611	582,643	32.815	19,119,430
GBP	4,077	39.370	160,511	4,238	48.480	205,458
HKD	141,347	4.125	583,056	140,119	4.204	589,060
AUD	160,116	23.210	3,716,292	130,799	23.890	3,124,788
SGD	12,506	22.200	277,633	339	23.150	7,848
CHF	378	31.490	11,903	315	33.080	10,420
CAD	10,999	23.810	261,886	2,254	23.580	53,149
JPY	2,673,150	0.2741	732,710	1,776,834	0.2704	480,456
CNY	354,322	4.603	1,630,944	606,828	4.963	3,011,687
ZAR	503,791	2.314	1,165,772	432,475	2.060	890,899
SEK	856	3.490	2,987	167	3.860	645
EUR	10,119	33.730	341,314	19,953	35.680	711,923
NZD	19,300	22.330	430,969	13,088	22.410	293,302
Non-monetary Items						
USD	5	32.220	161	316	32.815	10,370
Financial Liabilities						
Monetary Items						
USD	704,191	32.220	22,689,034	517,110	32.815	16,968,965
GBP	4,381	39.370	172,480	4,498	48.480	218,063
HKD	79,331	4.125	327,240	139,390	4.204	585,996
AUD	114,723	23.210	2,662,721	88,077	23.890	2,104,160
SGD	5,622	22.200	124,808	280	23.150	6,482
CHF	462	31.490	14,548	323	33.080	10,685
CAD	11,315	23.810	269,410	2,557	23.580	60,294
JPY	2,717,329	0.2741	744,820	1,769,944	0.2704	478,593
CNY	360,813	4.603	1,660,822	608,269	4.963	3,018,839
ZAR	543,971	2.314	1,258,749	481,143	2.060	991,155
SEK	112	3.490	391	45	3.860	174
EUR	9,189	33.730	309,945	7,051	35.680	251,580
NZD	19,393	22.330	433,046	13,148	22.410	294,647
Non-monetary Items						
USD	741	32.220	23,875	851	32.815	27,926
HKD	484	4.125	1,997	735	4.204	3,090
CNY	—	4.603	—	457	4.963	2,268

L. Disclosures in accordance with the Regulations Governing the Preparation of Financial Statements by Public Banks

(A) Interest rate sensitivity of The Bank and its subsidiaries assets and liabilities (NTD)

December 31, 2016					
Items	1~90 days (incl.)	91~180 days (incl.)	181~365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	191,203,775	6,332,093	124,481	14,871,454	212,531,803
Interest rate sensitive liabilities	143,803,748	20,395,773	29,648,075	7,603,554	201,451,150
Interest rate sensitivity gap	47,400,027	(14,063,680)	(29,523,594)	7,267,900	11,080,653
Net worth					11,792,152
Ratio of interest rate sensitive assets to liabilities (%)					105.50
Ratio of interest rate sensitivity gap to net worth (%)					93.97

December 31, 2015					
Items	1~90 days (incl.)	91~180 days (incl.)	181~365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	206,264,173	6,003,639	598,445	9,670,248	222,536,505
Interest rate sensitive liabilities	149,082,085	24,304,221	34,828,504	8,392,398	216,607,208
Interest rate sensitivity gap	57,182,088	(18,300,582)	(34,230,059)	1,277,850	5,929,297
Net worth					11,321,213
Ratio of interest rate sensitive assets to liabilities (%)					102.74
Ratio of interest rate sensitivity gap to net worth (%)					52.37

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

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

Unit: NT$ Thousand；%

December 31, 2016					
Items	1~90 days (incl.)	91~180 days (incl.)	181~365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	459,071	62,533	6,047	182,105	709,756
Interest rate sensitive liabilities	483,321	88,686	58,805	64,427	695,239
Interest rate sensitivity gap	(24,250)	(26,153)	(52,758)	117,678	14,517
Net worth					20,884
Ratio of interest rate sensitive assets to liabilities (%)					102.09
Ratio of interest rate sensitivity gap to net worth (%)					69.51

December 31, 2015					
Items	1 – 90 days (incl.)	91- 180 days (incl.)	181- 365 days (incl.)	Over 1 year	Total
Interest rate sensitive assets	450,676	57,821	2,027	64,188	574,712
Interest rate sensitive liabilities	304,164	83,088	59,166	74,901	521,319
Interest rate sensitivity gap	146,512	(25,267)	(57,139)	(10,713)	53,393
Net worth					17,691
Ratio of interest rate sensitive assets to liabilities (%)					110.24
Ratio of interest rate sensitivity gap to net worth (%)					301.81

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).

(6) Transfer of Financial Assets

A. Transferred financial assets not removed in whole

Most of the financial assets in routine operation of the Bank and its subsidiaries already transferred but not qualified for overall removal are debt securities under R/P agreements or equity securities lent out under securities lending agreements. These transactions resulted in the transfer of cash flow from contracts to a third party and also reflect the liabilities of the Bank and its subsidiaries deriving from the responsibilities of repurchase the transferred financial assets at fixed price in the future. For this type of transactions, the Bank and its subsidiaries cannot use, sell, or lien the transferred financial assets within the term of trade but the Bank and its subsidiaries still have to assume the interest risk and credit risk thereof and these instruments were not removed in whole. The following table shows the financial assets and other financial liabilities not qualified for removal in whole:

December 31 2016		
Financial assets category	Book value of transferred financial assets	Book value of related financial liabilities
Financial assets available for sales R/P contracts	32,101	35,286
Financial assets held-to-maturity R/P contracts	1,089,402	1,066,237

December 31 2015		
Financial assets category	Book value of transferred financial assets	Book value of related financial liabilities
Financial assets available for sales R/P contracts	362,948	349,798
Financial assets held-to-maturity R/P contracts	750,590	721,286

(7) Offsetting Between Financial Assets and Financial Liabilities

BOK and its subsidiaries also did not have the offsetting conditions as required by the notification. However, BOK has entered into a general agreement with counterparties for settlement in net value or similar agreements, such as R/P in similar agreements. The aforementioned general agreements on delivery at net amount or similar agreements provided that if the trading parties elect to deliver at net amount, they may offset the financial assets with financial liabilities in the transaction for delivery, or delivery at total amount. If either side of the trading parties is defaulted, the other side may elect to deliver at net amount.

The following table provides the quantified information on the financial assets and financial liabilities to be executed under the general agreement on net amount delivery:

December 31 2016:

Financial assets	Recognized total financial assets	Recognized total financial liabilities offset on balance sheet	Net financial assets on balance sheet	Amount not offset on balance sheet		
				Financial instruments	Collaterals in cash received	Net amount
Derivatives	$4,721	$ —	$4,721	($761)	$ —	$3,960

Financial liabilities	Recognized total financial liabilities	Recognized total financial assets offset on balance sheet	Net financial liabilities on balance sheet	Amount not offset on balance sheet		
				Financial instrument	Collaterals in cash under lien	Net amount
Derivatives	$1,349	$ —	$1,349	($761)		$588
R/P bills and bond liabilities	1,101,523	—	1,101,523	(1,064,519)	(37,004)	—
Total	$1,102,872	$ —	$1,102,872	($1,065,280)	($37,004)	$588

December 31 2015:

Financial assets	Recognized total financial assets	Recognized total financial liabilities offset on balance sheet	Net financial assets on balance sheet	Amount not offset on balance sheet		
				Financial instruments	Collaterals in cash received	Net amount
Derivatives	$1,029	$ —	$1,029	($329)	$ —	$700

Financial liabilities	Recognized total financial liabilities	Recognized total financial assets offset on balance sheet	Net financial liabilities on balance sheet	Amount not offset on balance sheet		
				Financial insstrument	Collaterals in cash under lien	Net amount
Derivatives	$19,754	$ —	$19,754	($329)	$ —	$19,425
R/P bills and bond liabilities	1,071,084	—	1,071,084	(1,060,879)	(10,205)	—
Total	$1,090,838	$ —	$1,090,838	($1,061,208)	($10,205)	$19,425

12.5 Capital Management

(1) Overview

The Bank and its subsidiaries adopt the following capital management objectives:

• The primary objectives of the Bank and its subsidiaries in capital management is to ensure that the core capital of the Bank and its 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.

• Capital requirement is estimated on the basis of the risk components and features of the risks the Bank and its subsidiaries bound to confront for proper risk management and the optimization allocation of assets so that the Bank and its subsidiaries have sufficient capital to tackle with the risks.

(2) Capital Management Procedures

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

BOK and its subsidiaries possess Tier I Capital and Tier II capital as equity in accordance with the “Regulations Governing the Capital Adequacy and Capital Category of Banks” of FSC:

• Tier 1 Capital: Including common stock equity tier 1 capital and other non-common equity tier 1 capital.

— Common stock equity tier 1 capital: Refers to common stock equity (ordinary share capital and share premium, additional paid-in capital, legal reserve, special reserve, accumulated earnings, non-controlling interests, other component of equity, and etc.) deducting intangible assets, deferred income tax assets from the previous year, the insufficiency of operation reserves and loan loss provisions, properties revaluation increments, unamortized loss on sale of substandard debts and other adjustments prescribed by other calculation methods and regulations.

— Other non-common equity tier 1 capital: Including non-cumulative perpetual preferred stock and share premium, non-cumulative perpetual subordinated debt, non-cumulative perpetual preferred stock and share premium issued by the subsidiary of the bank and not directly or indirectly held by the bank, and non-cumulative perpetual subordinated debt.

• Tier 2 capital: Includes cumulative perpetual preferred stock and share premium, cumulative perpetual subordinated debt, convertible subordinated bond, long-term subordinated bond, non-perpetual preferred stock and share premium, retained earnings increments measured at fair value or revaluation of properties on the first-time adoption of International Accounting Standards, 45% of gains from increments of investment property at fair value model and unrealized holding gains of available-for-sale financial assets, operation reserves and loan loss provisions, cumulative perpetual preferred stock and share premium issued by the subsidiary of the bank and not directly or indirectly held by the bank, cumulative perpetual subordinated debt, convertible subordinated bond, long-term subordinated bond, non-perpetual preferred stock and share premium, and etc.

(3) Capital Adequacy:

Unit: NT$ Thousand ; %

Items \ FY (Note 2)			December 31, 2016	December 31, 2015
Equity Capital	Common Stocks Equity		11,764,282	11,196,125
	Other Tier I Capital		—	—
	Tier II capital		4,070,966	4,901,827
	Equity Capital		15,835,248	16,097,952
Total Weighted Average Risk Assets	Credit Risk	Standardized Approach	153,148,703	148,290,347
		Internal Rating Based Approach (IRB)	—	—
		Asset Securitization	—	26,252
	Operational Risk	Basic Indicator Approach (BIA)	6,072,970	5,803,908
		Standardized Approach / Alternative Standardized Approach	—	—
		Advanced Measurement Approach	—	—
	Market Risk	Standardized Approach	2,604,740	4,383,324
		Internal Model Approach	—	—
	Total Weighted Average Risk Assets		161,826,413	158,503,831
Capital Adequacy Ratio (%)			9.79	10.16
Common Stock Equity to Risk Assets Ratio (%)			7.27	7.06
Tier 1 Capital to Risk Assets Ratio (%)			7.27	7.06
Leverage Ratio (%)			4.40	4.04

Note 1: The equity capital, weighted average assets level and total exposure shall be calculated in accordance with the “Regulations Governing the Capital Adequacy and Capital Categories of Banks” and the “Notes to the Method of Calculation of Capital Adequacy and Capital Categories of Banks and related forms”.

Note 2: The capital adequacy rate of current period and the previous period shall be stated in the annual financial statement. Interim reports shall contain information on capital adequacy in current period and previous period, and the capital adequacy rate as of the end of the previous year.

Note 3: Equation for calculation in current period is shown below:
(1) Equity capital＝common stock equity + other Tier I capital + Tier II capital.
(2) Total weighted average risk assets＝credit risk weighted average risk assets + provision of (operation risk + market risk) capital x 12.5.
(3) Capital adequacy ratio＝equity capital / total weighted average risk assets
(4) Common stock equity to risk assets ratio＝common stock equity / total weighted average risk assets
(5) Tier I capital to risk assets ration＝(common stock equity + other Tier I capital) / total weighted average risk assets
(6) Leverage ratio＝Tier I capital / total risk exposure

12.6 Profitability

Items		2016	2015
Return on assets	Before income tax	0.27	0.25
	After income tax	0.25	0.22
Return on equity	Before income tax	5.79	5.63
	After income tax	5.32	5.09
Net profit margin		19.27	17.84

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.

13. SUPPLENENTARY DISCLOSURES

13.1 Information on Significant Transactions

(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: None.

(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 2.

13.2 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.

13.3 Information on Investee Companies and Total Shareholding in Investee Companies: Appendix 3.

13.4 Investments in Mainland China: None.

Appendix 1

Bank of Kaohsiung Co., Ltd. and its Subsidiaries
Statement of Receivables from Related Parties in Excess of $300 Million or 10% of Paid-in Capital
December 31, 2016

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 and its subsidiaries	25,407,684	Not applicable to financial institutions	None	Not applicable	As of March 16, 2017, $4,992,727 thousand were collected.	–

Appendix 2

Bank of Kaohsiung Co., Ltd. and its Subsidiaries
Business Relationships and Important Transactions between Parent and Subsidiaries
December 31, 2016

Individual transactions less than $10 million (incl.) are those disclosed as part of assets or revenues will not be separately disclosed:

Unit: NT$ Thousand

No. (Note 1)	Name of Related Party	Counterparty	Relationship with Counterparty (Note 2)	Transaction Status			
				Account	Amount	Terms of Transaction	Ratio of transaction to consolidated net income or total assets (Note 3)
0	Bank of Kaohsiung Co., Ltd.	Kaohsiung Bank Insurance Agency Co., Ltd.	Parent to subsidiary	Accounts receivable	41,087	–	0.02%
		Kaohsiung Bank Insurance Agency Co., Ltd.	Parent to subsidiary	Service fees and commission income, net	194,846	–	5.79%
1	Kaohsiung Bank Insurance Agency Co., Ltd.	Bank of Kaohsiung Co., Ltd.	Subsidiary to parent	Cash and cash equivalents	97,375	–	0.04%

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 sheets 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 3

Bank of Kaohsiung Co., Ltd. and its Subsidiaries
Information on Investee Companies
December 31, 2016

Unit: Thousand shares; NT$ Thousand

Name of Investee Company	Location	Main Business Activities	Closing share-holding ratio	Carrying Amount of Investment	Investment Gain/ Loss Recognised This Period (Note 3)	Aggregate Shareholding of the Bank and its subsidiaries (Note 1)				Note
						No. Of Shares	Pro Forma No. of Shares (Note 2)	Total		
								No. of Shares	Share-holding	
Finance Related Enterprise										
Kaohsiung Bank Insurance Agency Co., Ltd.	Kaohsiung	Life insurance agency	100%	72,979	63,833	300	–	300	100%	Equity-method investment
Kaohsiung Bank General Insurance Agency Co., Ltd.	Kaohsiung	Property insurance agency	100%	9,093	2,250	500	–	500	100%	Equity-method investment
Taiwan Finance Corporation	Taipei	Bills & finance	10.00%	516,165	30,970	51,617	–	51,617	10.00%	Financial assets carried at cost
Waterland Securities Co., Ltd.	Taipei	Securities	4.94%	407,830	–	44,925	–	44,925	4.94%	Financial assets carried at cost
Taiwan Asset Management Co., Ltd.	Taipei	Assets management	0.57%	75,000	5,965	7,500	–	7,500	0.57%	Financial assets carried at cost
Taiwan Financial Assets Service Co., Ltd.	Taipei	Financial assets services	2.94%	50,000	–	5,000	–	5,000	2.94%	Financial assets carried at cost
Financial Information Services Co., Ltd.	Taipei	Information Services	1.14%	45,500	16,625	5,938	–	5,938	1.14%	Financial assets carried at cost
iPASS Corporation	Kaohsiung	Electronic ticket industry	5.00%	40,000	–	4,000	–	4,000	5.00%	Financial assets carried at cost
Taipei Forex Inc.	Taipei	Foreign exchange brokerage	3.53%	7,000	2,800	700	–	700	3.53%	Financial assets carried at cost
Taiwan Futures Exchange Corporation	Taipei	Futures trading	0.30%	6,000	1,961	918	–	918	0.30%	Financial assets carried at cost
Taiwan Depository & Clearing Corporation	Taipei	Depository & clearing	0.08%	4,639	428	292	–	292	0.08%	Financial assets carried at cost
TWMP Co.,Ltd.	Taipei	Computer equipment installation	0.50%	3,000	–	300	–	300	0.50%	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
Non-Finance Related Enterprise										
Kaohsiung Rapid Transit Corporation	Kaohsiung	Rapid transit	0.23%	6,430	–	643	–	643	0.23%	Financial assets carried at cost
Taiwan High Speed Rail Corp.	Taipei	Transportation	0.07%	73,600	5,635	4,000	–	4,000	0.07%	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 Bank 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. Investment return on Available-for-sale financial assets recognized in the current period amounted to TWD 2,808 thousand in dividend income and TWD 2,827 thousand in capital gains from disposal of investment.

14. SEGMENT INFORMATION

14.1 General Information:

The reportable segments of the Bank and its subsidiaries and its 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 and its subsidiaries 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.

14.2 Measurement of Segment Information:

The Bank and its 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.

14.3 Financial Information by Segment:

FY 2016:

	DBU	OBU& Finance Administration Dept.	Other Segments	Adjustment & Elimination	Total
Interest and service fee income from external customers	$3,403,246	$1,194,974	$425,319	$ —	$5,023,539
Interest and service fee income from internal segments	1,066,681	—	498	(1,067,179)	—
Interest and service fees paid to external customers	(1,664,481)	(161,565)	(103,134)	—	(1,929,180)
Interest and service fees paid to internal segments	(498)	(870,838)	(195,745)	1,067,081	—
Other net revenue	38,657	187,160	43,452	—	269,269
Net revenue	$2,843,605	$349,731	$170,390	($98)	$3,363,628
Bad debt expense	(364,479)	—	—	—	(364,479)
Operating expenses	(2,100,897)	(72,097)	(121,257)	98	(2,294,153)
Segment profit or loss	$378,229	$277,634	$49,133	$ —	$704,996
Assets					
Capital expenditure on non-current assets	$40,183	$ —	$ —	$ —	$40,183
Segment assets	$160,312,455	$82,592,945	$13,075,613	$193,307	$256,174,320
Segment liabilities	$149,143,828	$81,533,712	$13,031,746	$ —	$243,709,286

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

(2) Segment profit (loss) excluded income tax expense amounting to $56,692thousand.

(3) Segment assets excluded deferred income tax assets amounting to $193,307 thousand.

FY 2015:

	DBU	OBU& Finance Administration Dept.	Other Segments	Adjustment & Elimination	Total
Interest and service fee income from external customers	$3,771,401	$1,202,410	$396,606	$ —	$5,370,417
Interest and service fee income from internal segments	1,182,312	—	515	(1,182,827)	—
Interest and service fees paid to external customers	(2,082,568)	(146,253)	(121,407)	—	(2,350,228)
Interest and service fees paid to internal segments	(515)	(1,021,721)	(160,591)	1,182,827	—
Other net revenue	39,032	201,620	53,763	—	294,415
Net revenue	$2,909,662	$236,056	$168,886	$ —	$3,314,604
Bad debt expense	(324,707)	(45,879)	—	—	(370,586)
Operating expenses	(2,088,381)	(76,092)	(126,281)	—	(2,290,754)
Segment profit or loss	$496,574	$114,085	$42,605	$ —	$653,264
Assets					
Capital expenditure on non-current assets	$55,097	$ —	$ —	$ —	$55,097
Segment assets	$151,524,582	$97,806,416	$13,489,789	$229,888	$263,050,675
Segment liabilities	$140,744,630	$96,938,362	$13,465,940	$ —	$251,148,932

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

(2) Segment profit (loss) excluded income tax benefit amounting to $61,993 thousand.

(3) Segment assets excluded deferred income tax assets amounting to $229,888 thousand.

14.4 Information by Products:

The Bank and its subsidiaries have disclosed information on operating segments and thus information by products are not separately disclosed here.

14.5 Information by Geographic Location:

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

Unit: Thousand shares

Country	2016	2015
ROC	$4,171,788	$4,609,636
United States	35,790	28,358
Australia	32,622	39,605
United Arab Emirates	54,338	25
Cayman Islands	59,180	22,863
Virgin Islands	19,220	17,676
Other countries	650,601	652,279
Total	$5,023,539	$5,370,417

(2) Non-current assets:

Country	2016	2015
ROC	$3,158,160	$3,130,514

14.6 Information on Major Client:

Client	2016	2015
Kaohsiung City Government	$160,894	$222,517

6.5 Audited Individual Financial Statements for FY 2016

6.5.1 Balance Sheets

BANK OF KAOHSIUNG CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

ASSETS		Note	December 31, 2016		December 31, 2015	
A/C No.	Accounts		Amount	%	Amount	%
11000	Cash & cash equivalents	6.1	$3,992,105	2	$3,384,493	1
11500	Due from the Central Bank of China and other banks	6.2	10,574,542	4	14,968,151	6
12000	Financial assets at fair value through profit or loss	6.3	3,986,251	2	3,880,449	1
14000	Available-for-sale financial assets, net	6.4	31,298,076	12	36,836,691	14
12500	Bills and bonds purchased under agreements to resell	6.5	3,349,155	1	20,065,435	8
13000	Accounts receivable	6.6	1,158,103	—	1,047,872	—
13200	Income tax assets		48,251	—	23,593	—
13500	Discounts and loans, net	6.7	175,615,779	70	165,943,918	64
14500	Held-to-Maturity financial assets, net	6.8	21,609,828	8	11,736,176	4
15000	Equity method's investments, net	6.9	82,072	—	71,029	—
15500	Other financial assets, net	6.11	1,199,328	—	1,824,398	1
18500	Property and equipment, net	6.12	2,907,103	1	2,945,105	1
19000	Intangible assets, net	6.13	66,640	—	68,345	—
19300	Deferred income tax assets, net	6.38	193,307	—	229,888	—
19500	Other assets, net	6.14	181,979	—	114,526	—
10000	**TOTAL**		$256,262,519	100	$263,140,09	100

LIABILITIES AND SHAREHOLDERS' EQUITY		Note	December 31, 2016		December 31, 2015	
A/C No.	Accounts		Amount	%	Amount	%
	LIABILITIES					
21000	Due to Central Bank of China and other banks	6.15	$ 8,892,284	3	$ 9,155,382	3
22000	Financial liabilities at fair value through profit or loss	6.16	1,349	—	19,754	—
22500	Bills and bonds sold under agreements to repurchase	6.17	1,101,523	—	1,071,084	—
23000	Accounts payable	6.18	3,662,469	1	2,766,661	1
23200	Income tax liabilities		—	—	45,862	—
23500	Deposits and remittances	6.19	225,576,555	89	229,844,457	88
24000	Bank debentures	6.20	4,000,000	2	7,000,000	3
25500	Other financial liabilities	6.21	12,221	—	175,385	—
25600	Provisions	6.22	426,018	—	1,036,043	—
29500	Other liabilities	6.23	125,066	—	123,698	—
20000	**Total liabilities**		243,797,485	95	251,238,326	95
	SHAREHOLDERS' EQUITY					
31101	Ordinary share	6.24	8,232,238	3	7,788,659	3
31500	Capital surplus	6.24	1,872,395	1	1,872,395	1
32000	Retained earnings					
32001	Legal reserve	6.24	1,783,631	1	1,606,232	1
32005	Unappropriated earnings	6.25	620,704	—	607,376	—
	Total retained earnings		2,404,335	1	2,213,608	1
32500	Other equity	6.24	(43,934)	—	27,081	—
30000	**Total equity**		12,465,034	5	11,901,743	5
	TOTAL		$256,262,519	100	$263,140,09	100

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

Chairman：Chen-Cheng Chien　　President：Moan-Sheng Huang　　Chief Accountant：Anna Hsu

6.5.2 Statements of Comprehensive Income

BANK OF KAOHSIUNG CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Unit：NT$ Thousand

A/C No.	Accounts	Note	2016 Amount	2016 %	2015 Amount	2015 %	Change%
41000	Interest income		$4,401,671	133	$4,780,347	146	(8)
51000	Less: Interest expenses		(1,879,562)	(57)	(2,298,871)	(70)	(18)
49010	Net interest income	6.26	2,522,109	76	2,481,476	76	2
	Net Revenues Other Than Interest						
49100	Commission and fee revenues, net	6.27	483,692	14	464,672	14	4
49200	Gain or loss on financial assets and liabilities at fair value through profit or loss	6.28	116,497	3	(71,940)	(2)	262
49300	Realized gain(loss) on available-for-sale financial assets	6.29	57,648	2	13,849	—	316
49400	Realized gain (loss) of held-to-maturity financial assets	6.8	(2,375)	—	28,564	1	(108)
49600	Foreign exchange gain (loss)	6.30	(13,531)	—	233,654	7	(106)
49700	Reversal of impairment loss on assets	6.31		—	(23,586)	(1)	(100)
49500	Adoption, the share of affiliates recognized under the equity method subsidiaries and joint loss.	6.9	66,083	2	56,263	2	17
49800	Other net non-interest income						
49805	Net gain or loss of financial assets measured at cost	6.32	59,745	2	54,030	2	11
49813	Net investing gain or loss on debt investments without active market	6.33		—	10,606	—	(100)
49899	Other miscellaneous incomes (loss)	6.34	19,885	1	16,569	1	20
	Net revenue		3,309,753	100	3,264,157	100	1
58200	Allowance for credit loss and loss on guarantees	6.7	(364,479)	(11)	(370,586)	(11)	(2)
58400	Operating expenses						
58500	Employee benefits expenses	6.35	(1,472,352)	(44)	(1,476,329)	(45)	—
59000	Depreciation expenses and amortization	6.36	(82,822)	(3)	(81,384)	(2)	2
59500	Other business and administrative expenses	6.37	(698,639)	(21)	(694,118)	(21)	1
61001	Net income (loss) from continuing operations before income tax		691,461	21	641,740	21	8
61003	Income tax (expense) benefit	6.38	(43,157)	(1)	(50,409)	(2)	(14)
64000	Net income (loss)		648,304	20	591,331	19	10
	Other comprehensive income:						
	Items not classified as income						
65201	Reevaluation value of determined benefit plan		(29,989)	(1)	(38,181)	(1)	(21)
65220	Income tax benefit (expense) related to items without reclassification		5,098	—	6,490	—	(21)
	Items subject to subsequent reclassification as incomes						
65301	Exchange difference from conversion of financial statements of overseas operation segments		298	—	(23,874)	(1)	101
65302	Unrealized evaluation gain (loss) of financial assets available for sale		(71,262)	(2)	30,360	1	(335)
65320	Income tax benefit (expense) related to items subject to subsequent classification		(51)	—	4,059	—	(101)
65000	Other comprehensive income for the period, net of income tax	6.39	(95,906)	(3)	(21,146)	(1)	354
66000	Total Comprehensive Income For The Period		$552,398	17	$570,185	18	(3)
	Earnings per share (NT$):						
67500	Basic earnings per share	6.40	$0.79		$0.72		
67700	Diluted earnings per share	6.40	$0.78		$0.72		

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

Chairman：Chen-Cheng Chien　　President：Moan-Sheng Huang　　Chief Accountant：Anna Hsu

6.5.3 Statement of Changes in Equity

BANK OF KAOHSIUNG CO., LTD.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Unit：NT$ Thousand

Items	Capital Stock	Capital Surplus	Retained Earnings			Other Equity				Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences On Translating The Financial Statements Of Foreign Operations	Unrealized Gain (Loss) on Available-for-Sale Financial Assets	Other	Subtotal	
BALANCE, JANUARY 1, 2015	$7,403,514	$1,872,395	$1,458,030	$86,057	$484,322	$19,744	($3,429)	$406	$16,721	$11,321,039
Employee stock dividend	37,180	–	–	–	(4,276)	–	–	–	–	32,904
Appropriation of prior year's earnings:										
Legal reserve	–	–	148,202	–	(148,202)	–	–	–	–	–
Reversal of special reserve	–	–	–	(86,057)	86,057	–	–	–	–	–
Cash dividends	–	–	–	–	(22,200)	–	–	–	–	(22,200)
Capital increase by capitalization of earnings	347,965	–	–	–	(347,965)	–	–	–	–	–
Net income (loss)	–	–	–	–	591,331	–	–	–	–	591,331
Other comprehensive income for the period	–	–	–	–	(31,691)	(19,815)	30,360	–	10,545	(21,146)
Total comprehensive income for the period	–	–	–	–	559,640	(19,815)	30,360	–	10,545	570,185
Other	–	–	–	–	–	–	–	(185)	(185)	(185)
BALANCE, DECEMBER 31, 2015	7,788,659	1,872,395	1,606,232	–	607,376	(71)	26,931	221	27,081	11,901,743
Employee stock dividend	38,569	–	–	–	(4,320)	–	–	–	–	34,249
Appropriation of prior year's earnings:										
Legal reserve	–	–	177,399	–	(177,399)	–	–	–	–	–
Cash dividends	–	–	–	–	(23,356)	–	–	–	–	(23,356)
Capital increase by capitalization of earnings	405,010	–	–	–	(405,010)	–	–	–	–	–
Net income (loss)	–	–	–	–	648,304	–	–	–	–	648,304
Other comprehensive income for the period	–	–	–	–	(24,891)	247	(71,262)	–	(71,015)	(95,906)
Total comprehensive income for the period	–	–	–	–	623,413	247	(71,262)	–	(71,015)	552,398
BALANCE, DECEMBER 31, 2016	$8,232,238	$1,872,395	$1,783,631	$ –	$620,704	$176	($44,331)	$221	($43,934)	$12,465,034

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

Chairman：Chen-Cheng Chien　　President：Moan-Sheng Huang　　Chief Accountant：Anna Hsu

6.5.4 Statements of Cash Flows

BANK OF KAOHSIUNG CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Unit：NT$ Thousand

Items	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) before income tax	$691,461	$641,740
Adjustments:		
Earnings and loss		
Depreciation expenses	60,650	60,406
Amortization expenses	22,172	20,978
Allowance for or (reversal) of credit losses	513,112	474,723
Net (gain) or loss on financial assets and liabilities at fair value through profit or loss	(116,497)	71,940
Interest expenses	1,879,562	2,298,871
Interest income	(4,401,671)	(4,780,347)
Dividend income	(63,442)	(52,827)
Net changes in credit guarantees	(20,000)	—
Adoption, the share of affiliates recognized under the equity method subsidiaries and joint loss.	(66,083)	(56,263)
Loss (gain) on disposal of investments	(50,581)	(53,019)
Loss on impairment of financial assets	—	23,586
Other	49	—
Total of earnings and losses	(2,242,729)	(1,991,952)
Changes in operating assets and liabilities:		
Net changes in operating assets		
Increase in due from the Central Bank of China and other banks	1,010,238	(201,714)
Decrease (increase) in financial assets at fair value through profit or loss	(7,710)	7,019,842
Decrease (increase) in accounts receivable	(112,538)	(79,143)
Decrease (increase) in discounts and loans	(10,161,474)	16,468,803
Decrease (increase) in available-for-sale financial assets	1,844,969	(10,651,233)
Decrease (increase) in held-to-maturity financial assets	(6,200,687)	(8,961,273)
Decrease (increase) in other financial assets	623,704	(387,067)
Total net changes in operating assets	(13,003,498)	3,208,215
Net changes in operating liabilities		
Increase (decrease) in due to Central Bank of China and other banks	(263,098)	(363,747)
Increase (decrease) in bills and bonds sold under agreements to repurchase	30,439	1,009,963
Increase (decrease) in accounts payable	1,049,631	(59,655)
Increase (decrease) in deposits and remittances	(4,267,902)	(7,164,100)
Increase (decrease) in other financial liabilities	(163,164)	(3,023)
Increase (decrease) in provisions for employee benefits	(620,063)	29,620
Total net changes in operating liabilities	(4,234,157)	(6,550,942)
Total net changes in operating assets and liabilities	(17,237,655)	(3,342,727)
Total adjustments	(19,480,384)	(5,334,679)

(Continued on next page)

Net cash provided by (used in) operations	(18,788,923)	(4,692,939)
Interest received	4,381,929	4,662,688
Dividends received	118,482	98,658
Interest paid	(1,999,136)	(2,303,571)
Income tax refunded (paid)	(72,049)	(48,612)
Net cash provided by (used in) operating activities	(16,359,697)	(2,283,776)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(22,648)	(27,354)
Acquisition of intangible assets	(16,150)	(21,720)
Decrease in other financial assets	—	7,974
Increase in other assets	(71,854)	(51,351)
Net cash provided by (used in) investing activities	(110,652)	(92,451)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of financial debentures	(3,000,000)	—
Increase in guarantee deposit received	13,401	—
Decrease in guarantee deposit received	—	(2,257)
Decrease in other liabilities	(12,033)	(23,437)
Distribution of cash dividends	(23,356)	(22,200)
Net cash provided by (used in) financing activities	(3,021,988)	(47,894)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH & CASH EQUIVALENTS	298	(23,874)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,492,039)	(2,447,995)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	31,320,665	33,768,660
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$11,828,626	$31,320,665
Composition of cash & cash equivalents:		
Cash and cash equivalents in balance sheets	$3,992,105	$3,384,493
Due from the Central Bank of China and other banks that meet the definition of cash & cash equivalents in IAS No.7	4,487,366	7,870,737
Bills and bonds purchased under agreements to resell that meet the definition of cash & cash equivalents in IAS No. 7	3,349,155	20,065,435
Cash and cash equivalents in consolidated statements of cash flows	$11,828,626	$31,320,665

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

Chairman：Chen-Cheng Chien　　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 2016 & up to Mar. 2017: None.

7.1 Analysis of Financial Status

Unit：NT$ Million

Items \ FY	Dec. 31, 2016	Dec. 31, 2015	Increase (decrease) Amount	Increase (decrease) Rate (%)
Cash & cash equivalents、Due from the Central Bank of China and other banks	14,567	18,353	(3,786)	(Note1) (20.63)
Financial assets at fair value through profit or loss	3,986	3,880	106	2.73
Available-for-sale financial assets, net	31,298	36,837	(5,539)	(Note2) (15.04)
Bills and bonds purchased under agreements to resell	3,349	20,065	(16,716)	(Note3) (83.31)
Accounts receivable, net	1,150	1,027	123	11.98
Current income tax assets	48	24	24	100.00
Discounts and loans, net	175,616	165,944	9,672	(Note4) 5.83
Held-to-Maturity financial assets, net	21,610	11,736	9,874	(Note5) 84.13
Other financial assets, net	1,199	1,824	(625)	(34.27)
Property and equipment, net	2,907	2,945	(38)	(1.29)
Intangible assets, net	67	69	(2)	(2.90)
Deferred income tax assets, net	193	230	(37)	(16.09)
Other assets	184	117	67	57.26
Total Assets	256,174	263,051	(6,877)	(2.61)
Due to Central Bank of China and other banks	8,892	9,155	(263)	(2.87)
Financial liabilities at fair value through profit or loss	1	20	(19)	(95.00)
Bills and bonds sold under agreements to repurchase	1,102	1,071	31	2.89
Accounts payable	3,673	2,775	898	32.36
Current income tax liabilities	8	53	(45)	(84.91)
Deposits and remittances	225,470	229,740	(4,270)	(Note6) (1.86)
Bonds payable	4,000	7,000	(3,000)	(Note7) (42.86)
Other financial liabilities	12	175	(163)	(93.14)
Provisions	426	1,036	(610)	(58.88)
Other liabilities	125	124	1	0.81
Total Liabilities	243,709	251,149	(7,440)	(2.96)
Equity Attributable to Shareholders of the Parent				
Capital	8,232	7,789	443	5.69
Capital surplus	1,872	1,872	0	0.00
Retained earnings	2,404	2,214	190	8.58
Other equity	(43)	27	(70)	(259.26)
Total Equity	12,465	11,902	563	4.73

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

1. Primarily due to the reduction in the purchases of Central Bank's Certificate of Deposit.
2. Primarily due to the reduction in the Central Bank's Negotiable Certificate of Deposit and reclassification of financial assets from Available-for-sale to Held-to-maturity.
3. Primarily due to the reduction in the investment for the reverse repurchase short-term transaction instruments and bonds.
4. Primarily due to the increase in short-term loans.
5. Primarily due to the increase in the investment of Held-to-maturity financial assets-bonds and reclassification of financial assets-bonds from Available-for-sale to Held-to-maturity.
6. Primarily due to the reduction of time deposits.
7. Primarily due to the maturity of the first issue subordinate financial debentures in 2009.

7.2 Analysis of Financial Results

Unit：NT$ Million

Items \ FY	Jan. 1~Dec. 31, 2016	Jan. 1~Dec. 31, 2015	Increase (decrease) Amount	Increase (decrease) Rate (%)	
Interest income	4,402	4,780	(378)	(Note1)	(7.91)
Less: Interest expenses	(1,879)	(2,298)	419	(Note2)	(18.23)
Net interest income	2,523	2,482	41		1.65
Net Revenues Other Than Interest	841	833	8		0.96
Net revenue	3,364	3,315	49		1.48
Allowance for credit loss and loss on guarantees	(365)	(371)	6		(1.62)
Operating expenses	(2,294)	(2,291)	(3)		0.13
Net income (loss) before income tax	705	653	52		7.96
Income tax (expense) benefit	(57)	(62)	5		(8.06)
Net income (loss)－operating department	648	591	57		9.64
Net income (loss)－non-operating department	0	0	－		－
Net income (loss)	648	591	57		9.64
Other comprehensive income for the period, net of income tax	(96)	(21)	(75)	(Note3)	(357.14)
Total comprehensive income for the period	552	570	(18)		(3.16)
Net income (loss) attributable to: Shareholders of the parent	648	591	57		9.64
Net income (loss) attributable to: Minority interest	0	0	－		－
Total comprehensive income for the period attributable to: Shareholders of the parent	552	570	(18)		(3.16)
Total comprehensive income for the period attributable to: Minority interest	0	0	－		－
Earnings per share (NT$)	0.79	0.72	0.07		9.72

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

1. Primarily due to the reduction in discounts and loan interest incomes.
2. Primarily due to the reduction in deposit interest expenses and financial bond interests.
3. Primarily due to the increase of unrealized losses for the Available-for-sale financial assets.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Past Two Years

Unit：%

Items \ FY	2016	2015	Increase (decrease) Rate(%)
Cash flow ratio (%)	Note	Note	－
Cash flow adequacy ratio (%)	Note	1,022.91	－
Cash flow satisfied ratio (%)	Note	Note	－

Note：The cash flow from operating activities is net outflow.

7.3.2 Next Year Cash Flow Analysis

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
11,829	2,660	(1,105)	15,594	—	—

Note：1. Analysis of changes in cash flow estimates next year:
(1) Operating activities: Due to the increases in estimated deposits and remittances.
(2) Annual cash outflow: Due to cash increase of NT$ 1.8 billion.
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 2016

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
Project for the online banking system installation	Earnings support	2016.12.31	70 million	It was paid 35 million in 2015, paid 17 million in 2016 and Paid 18 million in January 2017.

7.4.2 Estimated potential effects:

"Project for the online banking system installation" not only updates the personal online banking and corporate banking system of the Bank, but also improves the operational safety mechanism, the service quality for customers and the expansion of services and competitiveness of the Bank.

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 Investment policy for 2016 and investment plans for the next year:

In 2016, The bank didn't have new investments. The bank will continuously observe and comprehend the development trend of the market in accordance with active and stable investment policies, and proceed with 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. In consideration of the cost of taxation, administrative efficiency, and organizational management, BOK planned to establish the "Insurance Agent Department" in September 2017 with the redemption of the investments of two subsidiaries, BOK Personal Insurance Agent Co., Ltd. and BOK Property Insurance Agent Co., Ltd.

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

Unit：NT$ Million

FY	Amount of profit	Source of profit
2016	130	Recognized earnings and cash dividends and punish interest
2015	109	Recognized earnings and cash dividends

7.5.3 The Loss on the Transfer Investment in the Last Two Years：None

7.6 Analysis & Evaluation of Risk Management

7.6.1 Qualitative and Quantitative Information of the Various Risks

Ⅰ. Credit risks management system and capital charge.

(ⅰ) Credit risks management system:

FY 2016

Items	Contents
1. Credit risks strategy, target, policy and flow.	■ 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: ◆ 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. ◆ Limit of credit extension: Sets the limit of credit extension and combined credit llimit 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. • 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.

Items	Contents
	◆ Accounting management: The credit extension accounting and archive are handled by the dedicated persons, and the procedure for documentation and archive is defined. ■ Flow The Bank's credit risk management procedures are categorized as identification, measurement, communication and control: ◆ Identification： 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. 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. ◆ Measurement： 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. ◆ Communication： 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. ◆ Monitor and Controlling： 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 credit risk monitoring mechanism of the Bank includes credit risk management, concentration and limit management, collateral value assessment, asset quality management, post-lending management, exceptional loan management, and investment risk management.
2. Credit risks management organization and strucure.	The Bank's credit risk management organization and structure as following: ◆ 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. ◆ Asset and liability and risk management committee: Drafting and reviewing financial improvement plans and management matters related to asset and liability and risk management matter, such as the review of capital adequacy ratio, capital increase, issue of financial bonds. ◆ 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, executing the credit risk management monitoring for the entire bank, summarizing the Bank's credit risk management information and reporting it to the Asset and Liability and Risk Management Committee and the 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: Executing the credit risk policies approved by the Board, being responsible for the credit risk control of the operation it is in charge of, knowing 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. to complete the control of the Bank's credit risk.

Items	Contents
	◆ 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.
3. Report of credit risks, scope and features of measuring system.	(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. (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 the financial status of borrowers, operation management, as well as industry characteristics and outlooks are also taken into consideration for a complete credit assessment and effective segregation of customers' risk grades. (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. (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. Risk orientations of regular monitoring include: National risks, corporate loan credit rating distributions, large amount credits, industry types, bank law suitability ratio, real estate secured loan area distribution, same borrower, same affiliate enterprise and group enterprise, etc. (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). B. Structure the risk based on the loans to sale ratio, full security ratio, CLTV and DBR. 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.
4. Credit risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools.	(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. (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.

Items	Contents
	(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. (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.
5. Method adopted for providing statutory capital.	The Standardized Approach.

(ii) Exposure and capital charge after risk mitigation under the credit risk standard approach

March 31, 2017

Unit：NT$ Million

Items	Exposure after Risk Mitigation	Capital Charge
Sovereign country	45,947	5
Non-central government public sector	27,714	443
Banks (including multi-development banks)	12,072	249
Enterprise (including securities and insurance)	80,478	6,162
Retail exposure	45,463	2,780
Real estate for residential	29,619	1,950
Equity securities investments	13	4
Other assets	5,305	305
Total	246,611	11,898

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

(i) Securitization risk management system:

FY 2016

Items	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 Bank executes control and reports on the credit risks, operational risks, market risks, interest rate risks, and liquidity risks that could be generated from investment activities in securitized instruments pursuant to the management organization and structure stated in the "Risk Management Policies and Procedures" of The Bank.

Items	Contents
3. Asset securitization risk scope and features of managing report, measuring system.	The Bank regularly performs risk evaluations on securitized instruments and reports them to high-ranking supervisors.
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.	The Standardized 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.	None.
7. Summary of bank asset securitization accounting policies.	None.
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.	None.
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.	None.

(ii) Securitization: None.

(iii) Exposure and capital charge after securitization risk by type of trading: None.

(iv) Information on securitized products

A. Summarization of information about investment in securitization products: None.

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.

Ⅲ. Operational Risks Management System and Capital Charge

(ⅰ) Operational risks management system:

FY 2016

Item	Contents
1. Operational risks management strategy and flow.	■ 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. ◆ 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 indictor 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. ◆ 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.
2. Operational risks management organization and structure.	The Bank's operating risk management organization and structure as following: ◆ 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. ◆ Asset and liability and risk management committee: Drafting and reviewing financial improvement plans and management matters related to asset and liability and risk management matter, such as the review of capital adequacy ratio, capital increase, issue of financial bonds. ◆ Business R&D Taskforce: responsible for the renovation projects, research and suggestions of the Bank's businesses. ◆ Risk Management Dept.: responsible for integrating the Bank's operational risks, summarizing the Bank's operational risks management information and reporting it to Board of Directors periodically, and handling the operational risks capital charge and disclosure of information pursuant to the competent authority's requirements. ◆ Business Supervising Entities: know the operational risks of the business handled by them, include the risk management when defining the various business requirements, and managing and supervising the business entities' execution of business, and helping Risk Management Dept. complete the control of the Bank's Operational risks. ◆ Business Entities: comply with the relevant operational guidelines and internal control regulations to engage in the routines for operating risk management, confirm the accuracy and sufficiency of the information, and report to the various business supervising entities or Risk Management Dept. pursuant to the requirements.

Item	Contents
3. Operational risks scope and features of managing report, measuring system.	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. (1) Loss Data Collection(LDC) The Bank uses the system to gather loss incidents and classifies them according to eight major business categories and seven major loss incident types. The Bank assesses the impact of the incident, amount of loss, the expense involved, the amount of recovery, and the net loss, as the basis for improvement. (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. (3) Risk Control Self-Assessment (RCSA) Evaluating past experience through the RCSA system used by all units, 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. If the result of the evaluation is in the high-risk category, the Bank should investigate the reason of the risk, propose an improvement plan, and prevent operational risk losses. 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. 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. 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.
4. Operational risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools.	■ 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.

(ii) Operational Risks Capital Charge

Unit：NT$ Million

FY	Gross Income	Capital Charge
2016	3,256	
2015	3,236	
2014	3,125	
Total	9,617	481

Ⅳ. Market Risks Management System and Capital Charge

(ⅰ) Market risks management system:

FY 2016

Items	Contents
1. Market risks management strategy and flow	■ 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 ◆ 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 secutities 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, VaR to net equity ratio, ß 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 (historical 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.
2. Market risks management organization and structure	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: ◆ 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. ◆ 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.

Items	Contents
	◆ 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	(1) The Bank adopted the statistical model of the VaR evaluation system published by the Taiwan Economic Journal (TEJ), and the Bloomberg system to develop an independent, rational, and accurate risk quantification mechanism. This model is used to evaluate the exposure and VaR of financial instruments and investment portfolios under the trading book. Descriptions are as follows: ■ In reference to the assumptions of the New Basel Capital Accord and the Financial Supervisory Commission: ■ 99% one-tail confidence level. ■ One year of historical observations. ■ Holding periods of 10 business days. ■ Risk evaluation methods ■ Historical simulation. ■ Quantified assessment coverage ■ VaR. ■ VaR ratio. ■ Average VaR to net equity ratio ■ ß of equity stocks and funds. ■ Duration、DVO1. (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.
4. Market risk hedging or risk mitigation policy, and strategies and procedures for continuous validity of supervision, avoidance and risk mitigation tools	◆ Avoid over-exposure by evaluating the rationality of risk-return trade-off, based on historical VaR and VaR ratios, and the average real 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.
5. Methods adopted to legal capital charge.	The Standardized Approach.

(ii) Market risk capital charge

Unit: NT$ Million at 2017.3.31

Items	Capital Charge
Interest rate risks	106
Equity exposure risks	6
Foreign exchange risks	4
Product risks	0
Total	116

V . Liquidity Risks

(i) Maturity analysis of assets and liabilities：

A. Analyses of the Structure of the Maturity Date (NT$) as follows: Please refer to page 137.

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

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

Dec. 31, 2016

Unit：US$ Thousand

Items	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	757,013	113,112	34,873	46,175	40,196	522,657
Main matured cash outflow	984,718	290,803	253,157	164,444	142,301	134,013
Duration gap	(227,705)	(177,691)	(218,284)	(118,269)	(102,105)	388,644

Dec. 31, 2015

Unit：US$ Thousand

Items	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	601,540	104,849	67,370	44,083	44,414	340,824
Main matured cash outflow	843,964	238,356	164,974	142,505	161,517	136,612
Duration gap	(242,424)	(133,507)	(97,604)	(98,422)	(117,103)	204,212

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.

(ii) 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, BOK 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. Short-term liquidity is monitored on a monthly basis based on the liquidity coverage ratio (LCR).

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

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

Changes	Impact	Responsive Measures
The competent authority issued the Directives of "Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business" and the "Directions for Offshore Banking Branches(OBUs) Conducting Financial Derivatives Businesses" and amended the "Regulations Governing the Self-Discipline of Banks in Processing Derivatives".	The definition of professional investors was revised and banks are required to take caution in assessing the risk tolerance of customers with effective control over the trade limit of customers. The trade limit of high risk and sophisticated products are also explicitly defined with leeway for the procedure of handling related products.	The Bank amended the "Criteria for Derivative Trade" and related procedures for the marketing of derivatives.
The Executive Yuan issued a Directive for the amendment of the "Personal Information Protection Act" and "Enforcement Rules for Personal Information Protection Act" in part of the clauses. The competent authority followed the Directive of Executive Yuan thereby amended the "Regulations Governing the Protection of Personal Information Files of Non-Governmental Institutions Designated by Financial Supervisory Commission"	The personal medical history is also classified as specific form of personal information. The limitation for the right of consent for the party concerned is broadened that the exercise of right is not limited to written form.	The Bank responded to the call of the competent authority by amending its "Regulations Governing the Protection of Customer Information" and the "Guidelines for the Protection of Customer Information Files" and were passed by the Customer Information Security Enforcement Committee of the Bank with written notice circulated to all functional units for action.
The Competent authority issued directives for the addition of the content to Article 15-1 and Article 19 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries".	Advocate the risk-oriented internal audit system and simplify the internal audit reporting operation.	The Bank have amended its Audit Handbook accordingly
The competent authority issued directives to require banks not to demand borrowers to deposit specific ratio of loan into related accounts of the borrowers with the deposits frozen (which is known as deposit of loans). In addition, banks are prohibited to match the loans with specific life insurance products or financial products as part of the conditions for approval of loans, or improper enticement in the course of applying for loans. Likewise, banks are prohibited to demand deputy agent of the enterprise to switch his or her mortgage loan to BOK as part of the conditions for approval of loans.	Comply accordingly.	The Bank have introduced the "Loan Policy and Procedure" and notified all banking units in writing. The Audit Handbook was also revised accordingly for subsequent audit work.
The competent authority ordered the institution of the "Banking Industry Friendly Financial Service Guide".	We provide barrier-free service at our business locations and Internet banking facility so as to provide friendly financial services to the disabled.	We notified all banking units in writing to request a response within their authority and jurisdiction, and complete the revision of related handbooks and manuals.

Changes	Impact	Responsive Measures
The Central Bank amended Articles 4, 12, 14 and 32 of the "Regulations Governing Foreign Exchange Business of Banking Enterprises"	Sophisticated derivatives with high risk, professional customers, professional institutional investors and legal person investors of high net worth are explicitly defined. The scope of on-the-job training of designated banks engaged in derivatives in foreign currencies is broadened with revision of related regulations governing the targets of derivative trade.	The Bank amended its "Regulations Governing OBU in Undertaking Derivative Business" accordingly, and notified all banking units in writing to comply with the change.
The competent authority issued directives to demand the establishment of programs for encouragement of financing frontier and innovative industries by domestic banks.	In supporting the government policy of frontier and innovative industries, BOK provides proper financing to assist the development of the industries so as to augment the advantage and reduce credit risk of BOK.	All banking units were notified in writing to support the encouragement policy of the government to give positive response.
The President ordered the establishment of the "Combating The Financing of Terrorism Act" and the "Anti-Money Laundering Act" The competent authority amended the "Particulars for Banking Industry in AML/ CFT" in accordance to the presidential orders.	The authentication and monitoring of control procedures were included, with the integration of basic information of customers and transaction details by the information system. The requirements of designated body, designated person in charge and sufficient staffing for AML/ CFT were also duly observed. These entail an organizational restructuring and additional cost of operation for BOK.	In addition to the amendment to related regulations and procedures, BOK also retained professional consulting firm to provide a report on the analysis of the variance between the AML practiced by the Bank and the new laws basing on which the Bank will procure necessary system to meet legal requirement.
The competent authority issued a directive to order the establishment the regulations governing the disclosure of information on capital adequacy ratio and risk management by domestic banks.	The Bank has completed the disclosure of capital adequacy and related risk management information as required.	In response, The Bank instituted the "Policy and Procedure for the Disclosure of Capital Adequacy and Risk Management Information".
The President ordered to amended Articles 23, 24, 30-1, 34, 36～39, 74, and 79 of the Labor Standard Act.	Under the new day off policy, the expense for overtime payment on holidays increased. The adjustment of special leaves also push up the cost of human resources.	The Bank amended its "Banking Staff Attendance Management Guide", "Banking Staff Payment for Performing Overtime Duties Guide" and the "Banking Staff Leave of Absence and Holiday Guide" accordingly.
The competent authority amended Items 2, 3, and 5 of the "Directions Governing Limitations on Types and Amounts of the Securities in which a Commercial Bank May Invest" .	The limit of investment in domestic companies listed in GTSM by banks is broadened, which is favorable for the planning of BOK in financial operation.	Amended the "Policy and Procedure of Investment" of the Bank and related investment guidelines.
The competent authority issued directives to demand the establishment of the "Standards Implementing the Net Stable Funding Ratio of Banks" and the "Notes to the Method for the Calculation of Net Stabilizing Fund Ratio and Forms for Calculation".	Fortify the management of liquidity risk of BOK and also align related quantified indicators of liquidity with international standards.	Amended the "Criteria for Interest Rate and Liquidity Risk Management".

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 arrival of digital Finance	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.	1. The Bank established the "Mobile Banking" and "Mobile Payment" platforms in 2014, which provides customers multiple services of account transfer, paying fees, financial management, and payment via smart phones; 2. The "New Era Online Banking System" is launched in 2016, creating whole new personal online banking, online counter 3.0 and corporate financial network in order to establish comprehensive Bank 3.0 digital finance environment. 3. Upgrade the function of ATMs and develop the EMV upgrade project in responding to the shift of responsibility of using forged cards. In addition, the Bank also provides additional functions for banking card holders to use the card for ATM withdrawal and consumption in Japan and ATM withdrawal in Hong Kong and Macao, and also inter-bank ATM deposit functions for the convenience of customers in wealth management.

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:

Ⅰ. The Impact and Risk of large transfer or change of equity: For many years, our directors, 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.

Ⅱ. 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

In addition to the following cases and law suits deriving from operation, The Bank has no other law suits or non-contentious cases of significance.

The facts	The amount involved	Date of action	Progress	Remark
The Bank suffered losses due to 3 cases of fraud committed by former staff. We filed a claim with First Property Insurance Co., Ltd. on Employee Dishonesty Liability Insurance. However, the insurer rejected the claim with the excuse that the act is uninsurable. We then filed a law suit against the insurer to claim for insurance benefits.	NTD 36,321,000	The litigation started on August 19, 2016 with payment of litigation fee.	The first instance of trial was in progress in Taipei District Court.	The Bank has recognized provision for loss and the impact on the financial position and operation of the Bank is insignificant.

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.

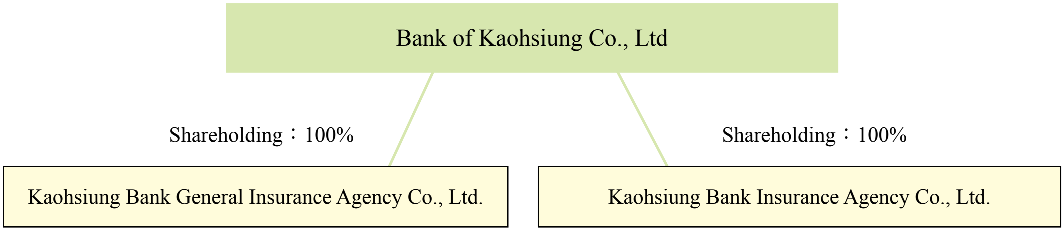
7.8 Other Significant Events: None.

8.1 Summary of Affiliated Companies

8.1.1 Consolidated Statements of Operation of Affiliated Companies

I .Brief Introduction

(i) Affiliated Companies Chart



(ii) Basic Information of Affiliated Companies

Unit : NT$ Million at 2017.3.31

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

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

(iv) Directors and Supervisors of Affiliated Companies

Unit : Share / % at 2017.3.31

Name	Title	Name or Representative	Shareholding	
			Shares	Shareholding (%)
Kaohsiung Bank General Insurance Agency Co. , Ltd	Chairman	Tsui-Mei Hsu	500,000	100%
	Director	Jin-Ann Wang		
	Director	Johnson Huang		
	Director	Yuan-Chin Shiang		
	Director	Mei-Ling Chen		
	Supervisor	Te-Chin Chou		
	Supervisor	Ting-Lien Lin		
Kaohsiung Bank Insurance Agency Co., Ltd	Chairman	Tsui-Mei Hsu	300,000	100%
	Director	Yuan-Chin Shiang		
	Director	Mei-Ling Chen		
	Supervisor	Ting-Lien Lin		
	Supervisor	Te-Chin Chou		

Ⅱ. Affiliated Companies Business Review and Achievements

Unit : NT$ Million at 2016.12.31

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	9.63	0.54	9.09	4.02	2.62	2.25	4.50
Kaohsiung Bank Insurance Agency Co., Ltd	3.00	132.14	59.16	72.98	317.19	76.50	63.83	212.78

8.1.2 Consolidated Financial Statements of Affiliated Companies

Ⅰ. Declaration

BANK OF KAOHSIUNG CO., LTD.

Declaration

Mar. 17, 2017

The Bank included in the consolidated financial statements of affiliated enterprises prepared by the Bank for FY 2016 (from Jan. 1, 2016 to Dec. 31, 2016) 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 International Financial Reporting Standards No. 10 approved by the Financial Supervisory Commission, 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 : (Chen-Cheng Chien)

Chien, Chen-Cheng

Ⅱ. The Bank's Audited Consolidated Financial Statements for FY 2016, please refer to page 65~69.

8.1.3 Affiliated Companies Report

Ⅰ. Relation of the "parent company and wholly-owned subsidiary": Please refer to page 175 for " Special Disclosure － Summary of Affiliated Companies".

Ⅱ. Transactions, property trade, financing, assets rental, and endorsement between the parent company and wholly-owned subsidiaries: Please refer to page 111 for "Notes to Financial Statements 7. Related Party Transactions ".

8.2 Private Placement Security and Financial Bonds in FY 2016 and Up to Mar. 2017: None.

8.3 The Shares in the BOK Held or Disposed of by Subsidiaries in FY 2016 and Up to Mar. 2017: None.

8.4 Other Supplementary Disclosure: None.

8.5 Pursuant to term 2, Paragraph 2, Article 36 of Security and Exchange Act. the Incidence Exerting Material Influence on Shareholders' Rights or Security Price in FY2016 and Up to Mar. 2017: None.

9.1 Corporate Governance evaluation of project implementation case retrieval

No.	Item	Evaluation Indicators	The Bank execution case	
			Yes/No	Reference page or description
1	1.11	Is it true that the company did not issue employee stock options, stock bonuses, restricted shares, and other securities or stock options having the nature of remuneration and bonus to management or directors who can be deemed as employees of the company as compensation, exceeding 5% of the share capital, over the three years preceding the year being evaluated?	Yes	42
2	1.12	In the year being evaluated, was the average share pledge ratio among directors, supervisors, and substantial shareholders equivalent to or less than 50%?	Yes	34
3	1.13	Is it true that the company did not have any government agency or a single TWSE/TPEx listed company and its subsidiaries accounting for one-third or more of the board?	No	11
4	1.14	Did the company disclose the implementation status of the AGM resolutions of the preceding fiscal year in the annual report?	Yes	31
5	3.2	Is it true that the chairman of the board, general manager (chief executive officer), or management in charge of finance or accounting affairs was not employed within the past 1 year by the current external auditors or an affiliate thereof?	Yes	34
6	3.7	Did the company fully and accurately disclose in the annual report the opinions raised by independent directors regarding major proposals presented at board of directors meetings, as well as the company's handling of the opinions of the independent directors?	Yes	19
7	3.8	Were the continuous terms of service of at least two independent directors not more than 9 years each?	Yes	11
8	3.9	Did the company fully and accurately disclose in the annual report the resolutions of the Audit Committee regarding major proposals, as well as the company's handling of the opinions of the Audit Committee?	Yes	20
9	3.13	Did the company have any functional committees other than statutorily required committees, and did such functional committees have not less than three members, with at least half of the members being independent directors, and did the company disclose the organization, functions, and operations of such committees?	No	—
10	3.16	Did the company adopt a board diversity policy and disclose the status of implementation of the diversity policy in the annual report and on the company's website?	Yes	12
11	3.22	Is it true that the number of the directors on the company's board of directors who are employees of the company or of its parent, subsidiary, or sister company is less than or equal to one-third of the total number of directors?	Yes	11
12	3.30	Did the board review the independence of the external auditors (at least once a year) and fully and accurately disclose the assessment procedures in the annual report?	Yes	20
13	3.31	Does the company regularly (at least once a year) carry out an evaluation of the performance of the board of directors and disclose the evaluation results on its website or in its annual report?	No	—

No.	Item	Evaluation Indicators	The Bank execution case	
			Yes/No	Reference page or description
14	4.10	Did the company disclose the trends and developments of the industry in which the company operates from macroeconomic perspectives in its annual report?	Yes	5~6
15	4.11	Did the company disclose long-term and short-term business development plans in its annual report?	Yes	47
16	4.12	Did the company disclose future R&D plans and estimated R&D expenditures in its annual report?	Yes	47
17	4.13	Did the company disclose in its annual report and on its website the list of substantial shareholders, including the names, number of shares held, and shareholding percentages, of the shareholders holding 5% or more of shares, or ranking among the top ten shareholders in terms of shareholding percentage?	Yes	40
18	4.14	Did the company voluntarily disclose the remuneration details of each director and supervisor in its annual report?	No	Not disclose individual remuneration.
19	4.16	Did the company voluntarily disclose in the annual report the amount and nature of any non-audit fees paid to the external auditor and its affiliates in addition to audit fees?	Yes	32
20	4.17	Were the non-audit fees paid to the external auditor and its affiliates, as disclosed in the annual report, no more than the audit fees?	Yes	32
21	4.22	Did the company disclose a specific and clear dividend policy in the annual report?	Yes	41,103~104
22	5.1	Did the company adopt a corporate social responsibility policy, system, or relevant management approaches, as well as concrete promotion plans and the results of the implementation thereof? In addition, did the company disclose the above in the annual report and on its website?	Yes	23~25
23	5.3	Did the company have a designated unit or personnel in charge of promoting corporate governance, corporate social responsibility, and ethical corporate management, and disclose the unit's operations and implementation in the annual report and on its website?	Yes	20~21 23~26
24	5.6	Did the company disclose the annual emissions of CO2 or other greenhouse gases (GHG) for the past 2 years?	Yes	Please refer to BOK CSR report
25	5.7	Did the company set management policies for energy conservation, reduction of carbon/greenhouse gas (GHG) emissions, water use, or other waste/pollutants?	Yes	Please refer to BOK CSR report
26	5.8	Was the company ISO 14001 certified or accredited with similar environmental management system certification?	No	The Bank has not yet adopted the environmental management system of international consensus.
27	5.9	Did the company disclose its employee welfare measures, retirement plan, and the implementation thereof in the annual report and on its website?	Yes	51
28	5.10	Did the company disclose the measures it takes to provide its employees with a safe working environment and personal security in the annual report and on its website?	Yes	24

9.2 Appendix 6 Guidelines for Ethical Conducts of Bank of Kaohsiung

Article 1

These Guidelines are enacted, for the purpose of compliance, to guide the conducts of directors and managers of the Bank to adhere to ethical standards.

Article 2

The term "managers" in these Guidelines herein refers to the General Manager and the person of the same level, Associate General Manager and the person of the same level, supervisor of the Financial Department, supervisor of the Accounting Department, and other persons with authorities to manage and sign.

Article 3

Directors and managers shall handle business in an objective and efficient manner and shall not obtain unwarranted benefits for themselves, their spouse, parents, children, or relatives within the second degree of kinship due to the position in the Bank.

When the Bank is involved in the situation of fund lending or providing guarantees or major asset transactions with the affiliated companies of aforementioned persons, these persons shall voluntarily explain whether or not there is potential conflict of interests with the Bank.

Article 4

The Bank shall prevent directors or managers from conducting following matters:

1. Having the opportunity to obtain private interests or obtaining private interests through using the Bank's property or information or their positions;
2. Competing with the Bank.

When the Bank has the opportunity to earn profits, directors or managers are responsible for increasing the legitimate legal benefits that the Bank may obtain.

Article 5

Except for the information that is authorized or stipulated by laws to disclose, directors or managers are under obligation of confidentiality in information of the Bank or the customers of the Bank. The aforementioned information that shall be under confidentiality includes all possible undisclosed information that may cause damages to the Bank or customers after being used by competitors or leaked.

Article 6

Directors or managers shall treat customers of the Bank, competitors and employees equally, and they shall not obtain unwarranted benefits through manipulating, concealing or abusing information obtained from the position, making false representation on critical matters, or conducting unequal transactions.

Article 7

Directors or managers are responsible for protecting the assets of the Bank and ensure they are used efficiently and legally in official business.

Article 8

The Bank shall strengthen the compliance to Securities and Exchange Act and other laws and regulations for directors and managers.

Article 9

The Bank shall strengthen the ethical concepts internally, encourage employees to report to independent directors, managers, supervisor of internal audit or other proper personnel when suspecting or discovering conducts violating laws and regulations or these Guidelines, and protect the safety of reporter.

Article 10

When directors or managers violate these Guidelines, the Bank shall perform disciplinary measures pursuant to the Company Act and regulations of the Bank and shall immediately disclose the date of violation, facts of violation and reasons, violation of these Guidelines and disposition on Market Observation Post System.

When being punished for violating these Guidelines, the violator may appeal pursuant to relevant regulations.

Article 11

When it is necessary to exempt directors or manager from following these Guidelines, the exemption shall be approved by the Board of Directors, and information including the date of exemption, dissenting opinions or reserves by independent directors, exemption period, reasons of exemption, and applicable Guidelines for exemptions shall be disclosed on Market Observation Post System, which allows shareholders to evaluate the adequacy of the resolution by the Board in order to restrain arbitrary or suspicious exemption of following these Guidelines from happening and to ensure there is proper control and manage mechanism for the exemption of following these Guidelines in order to protect the Bank.

Article 12

The Bank shall disclose these Guidelines on the Bank's website, annual report, prospectus, and Market Observation Post System; the same applies in amending these Guidelines.

Article 13

These Guidelines shall be implemented after approved by the Board and reported to the shareholders' meeting; the same applies in amending these Guidelines.

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, Chungho Dist., New Taipei City, Taiwan	(886)2-8227-1399
Banciao Branch	100, Sec. 2, Sihchuan Road, Banqiao Dist., New Taipei City, Taiwan	(886)2-8967-1250
Taipei Branch	1~2F, 168 Sung Chiang Road, Chungsang District, Taipei, Taiwan	(886)2-2563-0101
Ta Chih Branch	1F, 97 Jingye 1st Road, Chungsang District, Taipei, Taiwan	(886)2-8502-1656
Po Ai Branch	B1、1F, 38 Po Ai Road, Chungcheng District, Taipei, Taiwan	(886)2-2375-1188

Bank of Kaohsiung

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