6.4 Financial Report for FY 2013

Crowe Horwath (TW) CPAs

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Report of Independent Auditors

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

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

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

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

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

Crowe Horwath (TW) CPAs

CPA：Shu-Man Tsai Tsai Shu Man

CPA：Ling-Wen Huang HUANG LING WEN

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

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

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

unit: NT$ Thousand

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

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

(Continued)

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

unit: NT$ Thousand

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

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

Chairman： Toong-Min Chen　　President： Moan-Sheng Huang　　Chief Accountant： Anna Hsu

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

unit: NT$ Thousand

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

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

Chairman： Toong-Min Chen　　President： Moan-Sheng Huang　　Chief Accountant： Anna Hsu

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

unit: NT$ Thousand

Item	Capital Stock	Capital Surplus	Retained Earnings				Other Equity				Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences On Translating The Financial Statements Of Foreign Operations	Unrealized Gain (Loss) on Available-for-Sale Financial Assets	Other	Total	
BALANCE, JANUARY 1, 2012	$7,069,476	$2,017,724	$1,642,841	$41,937	($780,278)	$904,500	$ –	($48,932)	$521	($48,411)	$9,943,289
Appropriation of prior year's earnings(Note 1)											
Legal reserve to offset deficit	–	–	(364,946)	–	364,946	–	–	–	–	–	–
Special reserve to offset deficit	–	–	–	(41,937)	41,937	–	–	–	–	–	–
Net income (loss)	–	–	–	–	458,294	458,294	–	–	–	–	458,294
Other comprehensive income For the Year Ended Dec. 31, 2012	–	–	–	–	(9,123)	(9,123)	(6,042)	156,893	–	150,851	141,728
Total comprehensive income for the period	$ –	$ –	$ –	$ –	$449,171	$449,171	($6,042)	$156,893	$ –	$150,851	$600,022
Other	–	–	–	–	–	–	–	–	(34)	(34)	(34)
Total Changes	$ –	$ –	($364,946)	($41,937)	$856,054	$449,171	($6,042)	$156,893	($34)	$150,817	$599,988
BALANCE, DECEMBER 31, 2012	$7,069,476	$2,017,724	$1,277,895	$ –	$75,776	$1,353,671	($6,042)	$107,961	$487	$102,406	$10,543,277
BALANCE, JANUARY 1, 2013	$7,069,476	$2,017,724	$1,277,895	$ –	$75,776	$1,353,671	($6,042)	$107,961	$487	$102,406	$10,543,277
Stock dividends	13,765	(1,119)			(78)	(78)					12,568
Appropriation of prior year's earnings(Note 2)											
Legal reserve	–	–	115,861	–	(115,861)	–	–	–	–	–	–
Cash dividends	–	–	–	–	(14,139)	(14,139)	–	–	–	–	(14,139)
Capital increase by capitalization of earnings	127,251	–	–	–	(127,251)	(127,251)	–	–	–	–	–
Net income (loss)	–	–	–	–	419,105	419,105	–	–	–	–	419,105
Other comprehensive income For the Year Ended Dec. 31, 2013	–	–	–	–	(23,306)	(23,306)	7,864	(196,294)	–	(188,430)	(211,736)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ –	$ –	$ –	$ –	$395,799	$395,799	$7,864	($196,294)	$ –	($188,430)	$207,369
Other	–	–	–	–	–	–	–	–	(33)	(33)	(33)
Total Changes	$141,016	($1,119)	$115,861	$ –	$138,470	$254,331	$7,864	($196,294)	($33)	($188,463)	$205,765
BALANCE, DECEMBER 31, 2013	$7,210,492	$2,016,605	$1,393,756	$ –	$214,246	$1,608,002	$1,822	($88,333)	$454	($86,057)	$10,749,042

Note 1: Remuneration to directors and supervisors and employee bonus was both nil.
Note 2: Remuneration to directors and supervisors and employee bonus was NT$4,710 thousand and $18,850 thousand, respectively.

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

Chairman： Toong-Min Chen　　President： Moan-Sheng Huang　　Chief Accountant： Anna Hsu

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

unit: NT$ Thousand

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

Chairman： Toong-Min Chen　　President： Moan-Sheng Huang　　Chief Accountant： Anna Hsu

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

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

1. HISTORY AND ORGANIZATION

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

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

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

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

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

1.2 Subsidiaries included in the consolidated financial statements as of December 31, 2013 and 2012 and January 1, 2012 are listed as follows:

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

New Standards, Amendments and Interpretations	Main Amendments	Effective Date Announced By IASB
IFRS 9, 'Financial instruments: Classification and measurement of financial liabilities'	IFRS 9 requires gains and losses on financial liabilities designated at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which shall be presented in other comprehensive income, and cannot be reclassified to profit or loss when derecognizing the liabilities; and all other changes in fair value are recognized in profit or loss. The new guidance allows the recognition of the full amount of change in the fair value in the profit or loss only if there is reasonable evidence showing on initial recognition that the recognition of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch (inconsistency) in profit or loss. (That determination is made at initial recognition and is not reassessed subsequently.)	Not yet announced (Note)
IFRS 9, "Financial Instrument: Hedge Accounting" and amendments to IFRS 9, IFRS 7 and IAS 39	1. Relax the criteria for classification of hedged items and hedging instruments and remove the highly effective standard to ensure the applicability of hedging accounting in corporate risk management activities. 2. Permits separate, early adoption of the provisions governing presentation of the change in the fair value of financial liabilities designated at fair value through profit or loss that is attributable to changes in the credit risk of the liability in "other comprehensive income".	Net yet announced (Note)
Contributions from employees or third parties that are linked to service (Amendment to IAS 19)	The revised standard permits recognition of the amount of the contributions from employees or third parties that are linked to service but independent of the number of years of service as a reduction in the service cost in the period in which the related service is rendered. For contributions that are dependent on the number of years of service shall be amortised in the same manner as the defined benefit plan in the period in which the service is rendered.	July 1, 2014
Improvements to IFRSs 2010-2012	Amendments to IFRS 2, IFRS 3, IFRS, 8 and IFRS 13 and IAS 16, IAS 24 and IAS 38.	July 1, 2014
Improvements to IFRSs 2011-2013	Amendments to IFRS 1, IFRS 2 and IFRS 13 and IAS 40.	July 1, 2014
Amendment to IAS 32, "Offsetting Financial Assets and Financial Liabilities"	The amendment clarifies the criterion set out in IAS 32 that an entity "currently has a legally enforceable right to set off the recognised amounts" and "gross settlement mechanisms with features that are effectively equivalent to net settlement".	January 1, 2014

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

(Note): See explanations in 3.2.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting 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

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

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

4.2 Basis of Preparation

(1) Except for the following items, these consolidated statements have been prepared under the historical cost convention:
A. Financial instruments (including derivative instruments) at fair value through profit or loss.
B. Defined benefit liabilities recognised based on the net amount of pension fund assets plus unrecognised prior period's service cost and unrecognised actuarial losses, less unrecognised actuarial gains and present value of defined benefit obligation.

(2) Expenses incurred by the Bank and subsidiaries are analysed and classified by their nature.

(3) The economic activities of the Bank and subsidiaries are classified into operating activities, investing activities and financing activities based on judgement by the management. Changes in cash and cash equivalents in the current period are reported in the cash flow statements in the categories of operating, investing and financing activities. Please refer to Note 6.1 for composition of the items that make up the cash and cash equivalents account.
The cash flow information for operating activities is compiled using the indirect method. The indirect method adjusts accrual basis net profit (or loss) for the effects of non-cash transactions, deferrals or accruals arising from any past or future cash from or used in operating activities and revenues or expenses associated with investing or financing cash flows. Interest paid and received and dividend received are classified as operating cash flows. Dividends paid are financing costs and are thus classified as financing cash flows.

(4) The preparation of financial statements in conformity with IFRSs requires the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the consolidated financial statements are disclosed in Note 5.

4.3 Foreign Currency Translation:

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

(2) Foreign Currency Transactions and Balances
The transactions denominated in foreign currency or to be settled in foreign currency are translated into a functional currency at the spot exchange rate between the functional currency and the underlying foreign currency on the date of the transaction.
Foreign currency monetary items are reported using the closing rate (market exchange rate) at the date of each balance sheet. Foreign currency non-monetary items measured at historical cost are reported using the exchange rate at the date of the transaction. Foreign currency non-monetary items measured at fair value are reported at the rate that existed when the fair values were determined.
Exchange differences arising when foreign currency transactions are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized or in previous financial statements are reported in profit or loss in the period, with one exception. The exception is that exchange differences associated with the gains or losses of the parts of effective hedges of cash flow hedges or hedges of net investments in foreign operations are recognized in other comprehensive income.
If a gain or loss on a non-monetary item measured at fair value is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income. If a gain or loss on a non-monetary item measured at fair value is

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

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

A. Assets and liabilities presented are translated at the Company's and its subsidiaries ' closing exchange rate at the date of that balance sheet;
B. The profit and loss presented is translated by the average exchange rate in the period (except for the situation that the exchange rate on the trade date shall be adopted when the 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.

4.4 Cash and Cash Equivalents

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

4.5 Bills And Bonds Under Repurchase or Resale Agreements

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

4.6 Financial Assets or Liabilities

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

(1) Financial Assets

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

A. A regular way purchase or sale

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

B. Loans and receivables

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

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

C. Financial assets at fair value through profit or loss

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

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

(A) They eliminate or significantly reduce a measurement or recognition inconsistency such as measurement of financial assets or liabilities or recognition of related gain or loss on different bases; or

(B) Their performance is evaluated on a fair value basis; or

(C) Hybrid (combined) instruments including embedded derivative instruments.

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

D. Held-to-maturity financial assets

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

E. Available-for-sale financial assets

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

F. Other financial assets

(A) Financial assets carried at cost

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

(B) Debt investments with no active market

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

(2) Financial Liabilities

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

A. Financial liabilities at fair value through profit or loss

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

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

hedging instrument.

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

B. Financial liabilities measured at amortized cost

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

C. Determination of fair value

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

D. Deferring recognition of first-day profit or loss

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

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

E. Derecognition of financial assets and liabilities

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

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

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

4.7 Reclassification of Financial Assets

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

4.8 Offsetting Financial Instruments

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

4.9 Interest Income and Expense

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

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

4.10 Service Fee and Commission Income

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

4.11 Impairment of Financial Assets

(1) Financial assets carried at amortized cost

At each reporting date, a financial asset or a group of financial assets is assessed by the Bank and subsidiaries to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a single or 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
   (C) assets in the group

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

Where there is objective evidence indicating impairment loss, The amount of the impairment loss is the difference between the financial assets' book value and the estimated future cash flow (excluding future credit loss not yet incurred) discounted using the original effective interest rate. The carrying amount of assets is adjusted in the allowance for credit loss and the amount of impairment loss is listed under “allowance for credit loss and loss on guarantees” or “loss on impairment of financial assets” . The 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 subsidiaries complete all mandatory legal procedures and provided that the amount of impairment loss may be determined.

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

The above process of evaluation follows the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non accrual Loans" (the "Regulations") issued by the FSC under which loan assets are classified into the following categories. Normal credit assets shall be classified as "Category One". The Bank and subsidiaries shall make an allowance for credit losses and guarantees equaling 0.5% of the balance of Category One assets less government claims. The remaining 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.

4.12 Derivative Financial Instruments

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

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

(3) Non-qualifying hedging derivatives

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

4.13 Impairment of Non-financial Assets

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

4.14 Foreclosed Collaterals

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

4.15 Leases

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

4.16 Property and Equipment

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

When the future economic benefit related to subsequent expenditure related to the asset is highly likely to flow into the Bank and its subsidiaries and that the costs can be reliably measured, such expenditure may be included in the carrying amount of the asset or may be 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.

4.17 Intangible Assets

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

4.18 Income Taxes

(1) Current income tax

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

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

(2) Deferred income tax

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

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

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

4.19 Employee Benefits

(1) Short-term employee benefits

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

(2) Post employment benefit

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

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

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

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

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

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

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

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

(4) Termination benefits

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

4.20 Provision for Liabilities, Contingent Liabilities and Contingent Assets

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

(1) A present obligation (legal or constructive) as a result of a past event;

(2) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(3) The amount of the obligation can be reliably estimated.

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

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

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

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

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

4.21 Financial Guarantee Contracts

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

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

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

4.22 Bank Debentures

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

4.23 Capital

(1) Cost of issuing shares

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

(2) Common share dividends

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

4.24 Comparative Information

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

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

4.25 Operating Segments

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

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

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

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

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

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

5.1 Impairment Loss on Loans

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

5.2 Financial Instruments

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

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

(2) Financial assets－impairment on equity investment

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

(3) Financial assets carried at cost

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

(4) Held-to-maturity financial assets

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

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

5.3 Income Tax

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

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

5.4 Post Employment Benefit

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

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

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

6.1 Cash and Cash Equivalents

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