Hsian Chung Tsai

Chairman

Dear Shareholders,

The Bank hereby reports its operation results in 2011, summary of business plan in 2012, future development strategies and the impact to the Bank by external competitive environment, laws & regulations and overall economic environment as follows:

Operating Performance in 2011

1. Domestic and Foreign Financial Environment

Despite the financial tsunami ceasing in the first half of 2011, the global economy still has not yet recovered. Notwithstanding, the economic recovery in the U.S.A. is still continuing, and emerging economies are growing. The global economic recovery is increasingly apparent. Given the increasing commodity price and real estate price domestically, Ministry of Finance announced the imposition of "Luxury Tax" as of June, in hopes of controlling housing prices. The Central Bank of China escalated the interest rate twice in hopes of stabilizing the domestic commodity prices. On the other hand, the earthquake in Japan inflicted heavy losses on the industrial supply chain. The unemployment rate in the U.S.A. stayed high. The risk of European Sovereign Debt Crisis was also increasing constantly.

In the second half of 2011, the global economy became sluggish due to the European Sovereign Debt Crisis. Domestically, at the end of September, the Central Bank of China has suspended the escalation of interest rate by 0.125% which was carried out for five quarters consecutively, in hopes of facilitating the financial stability of the economy as a whole. Given the increasingly disputable deficit cut, the US credit rating was downgraded by Standard & Poor's. The global stock market was in turmoil. The spreading European Sovereign Debt Crisis hindered the global economic growth and thereby caused the concern about the outbreak of a Double-dip Recession.

2. Transformation of the Bank's Organization

The Bank's organization remained unchanged for FY 2011.

3. Results of Business Plans and Operating Strategies for FY 2011

A. Proceed with capital increase to enhance capital structure

In order to enhance the capital structure, increase capital adequacy rate and improve the overall competitiveness, and to comply with the requirement by the Ministry of Finance defining that the net worth of a bank acting on behalf of city/county treasury shall meet at least NT$10 billion, the Bank proceeded with recapitalization from earnings, capital reserve and employee bonus by NT$0.611 billion and capital increased in cash by NT$1.2 billion this year.

President
(Appointed to be president on Apr.23, 2012)

Unit：NT$ 100 Million、%

Item	100.12.31	99.12.31	Comparison Amount
Paid-in Capital	70.69	52.58	18.11
Capital adequacy Ratio (%)	9.83	9.40	0.43
Net worth	103.63	95.59	8.04

B. Continue promoting loans to SMEs

Given the better interest spread for loans to SMEs, in order to improve the business performance and adhere to the management philosophy for fostering local SMEs in the capacity of a “local bank”, the Bank continued to promote the loans to SMEs.

Unit : NT$ 100 Million、%

Item	100.12.31	99.12.31	Growth Rate (%)
Balance on Loan to SMEs	395.31	327.51	20.70
Total Balance on Loan	1,679.00	1,630.54	2.97
Loan to SMEs (of Total Balance on Loan) Ratio	23.54	20.09	3.45

C. Reduce credit risk and enhance transfer of credit guarantee fund business

In order to reduce the entire credit risk and enhance the protection of creditor’s right, the Bank continued to enhance the transfer of credit guarantee fund business.

Unit : NT$ 100 Million、%

Item	100.12.31	99.12.31	Growth Rate (%)
Balance Backed by the Credit Guarantee Fund	56.71	53.10	6.80

D. Continue the dedication to highten demand deposit

In order to improve the deposit structure and reduce operation cost, the Bank continued to highten the general demand deposit.

Charles. W. Chung

President
(Resigned on Apr.01, 2012)

Unit : NT$ 100 Million、%

Item	100.12.31	99.12.31	Growth Rate (%)
General demand deposit balance	652.84	624.95	4.46
Total Deposit	1,954.44	1,866.69	4.70
Ratio of General demand deposit balance (%)	33.40	33.48	(0.08)

4. Execution of Business Target:

Unit : NT$ /US$ 100 Million、%

Operating Item / Execution	Outcome	Target	Achievement (%)
Average Deposits Balances (NT$)	1,881.49	1,820.00	103.38
Average Loans Balances (NT$)	1,624.83	1,600.00	101.55
Foreign Exchange Sales (US$)	44.01	42.00	104.79
Commission and Service Fees from Wealth Management Businesses (NT$)	2.79	2.99	93.31
Earnings (loss) before Tax (NT$)	(4.29)	0.80	—

In 2011, to comply with the 3rd amendments to the Statement of Financial Accounting Standards No. 34 for "Accounting Principles for Financial Products", the Bank recorded doubtful debt expenses of NT$0.899 billion. Meanwhile, default and failure to pay interest occurred from 2004 to 2007 during which the Bank invested in securitized products as CDO, SIV and so on, resulting in the market price declination and provision of foreign currency asset impairment NT$0.418 billion, causing a loss before tax, NT$0.429 billion. Excluding the doubtful debt expenses and asset impairment, the earnings before tax prior to the record NT$0.888 billion, compared to NT$0.730 billion in 2010 has increased by NT$0.158 billion which grows 21.64%.

5. Analyses of Financial Revenue, Expenditure and Profitability

A. Financial Revenue and Expenditure

In 2011, net revenue of NT$2,318 million; credit loss expenses of NT$899 million; operating expenses of NT$1,848 million; loss before tax of NT$429 million; net loss of NT$433 million.

B. Profitability

In 2011, the return on total assets after income tax was 0.20%; return on equity after income tax was -4.35%; net profit margin after income tax was -18.69%; EPS after tax was NT$-0.71 per share.

6. Status of R & D

A. Due to the combination of Kaohsiung County and City, the Bank's on-line automatic debit system of Kaohsiung City parking fees included Fengshan and Niensong Districts.

B. The Bank's "Asset and Liability Management and Fund Transfer Pricing System Advisory Service and System" went live, in hopes of managing the funding cost effectively, monitoring changes in net interest income and enhancing the liquidity of fund management function to upgrade the business performance.

Business Plan in 2012

1. Business objectives

In 2012, due to the sovereign debt crisis in Europe and the U.S.A., the fiscal policy was restricted substantially and economic growth was slow. Given the uncertainty of global economy, the economic growth rate was adjusted downward and enterprises' profitability was not so optimistic; therefore, the Bank's profitability was affected adversely. In order to improve the entire business performance, in 2012, the Bank will be dedicated to expand deposits, loans and wealth management operations to increase the net interest income and fee revenues, and will enhance the credit review to upgrade the quality of assets and continue to accelerate collection of bad credit.

2. Expected Business Objective and Important Operating Policies

A. Expected Business Objectives

Unit : NT$ /US$ 100 Million

Item	Target
Average Deposits Balances (NT$)	2,000.00
Average Loans Balances (NT$)	1,700.00
Foreign Exchange Sales (US$)	48.00
Commission and Service Fees from Wealth Management Businesses (NT$)	2.87

B. Important Operating Policies:

(a) Adjust credit assets portfolio and increase interest spread

(i) Develop loans to SMEs based on a better interest spread as the first priority, and particularly foster local SMEs;

(ii) Continue promoting the house loan and enhancing the business for non-house loans based on a better interest spread;

(iii) Strengthen the transfer of SME loans to credit guarantee fund to control the credit risk.

(b) Adjust deposit structure and improve profit

To increase demand deposits as the first priority, in hopes of substantially reducing the funding cost and increasing net interest income.

(c) Enhance the risk control over asset quality to ensure profit

The Bank shall notice the quality of and risk control over asset with due diligence, irrelevant of loan assets or foreign currency assets, to prevent loss of earnings.

(d) Accelerate collection of bad credit to increase profit

To continue enhancing the loan quality and accelerate collection of bad credit, in hopes of increasing income, to enhance the control over borrowers, in hopes of better understanding customers' status and reducing the possibility of NPL to the lowest level.

Development Strategy

1. The Bank will orient its business development toward a “local bank” and also a “small but outstanding” qualified bank dedicated to fostering local SMEs.
2. Relocate business locations to profitable area, and accommodate to the financing business under Kaohsiung City Government Industrial Park Development Program.
3. Strengthen external visits, enhance extension of business and develop customers voluntarily.
4. Instruct and review the performance of, the frequency of visits paid by business units and important business lines, to achieve the goal for all staff on field assignment.
5. Enhance the profitability to the Bank’s KPI (e.g. BIS, NPL and Cover Ratios, et al.) among interbanks.

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

1. External competitive environment

   Given the increasing cross-strait exchanges, the national banks’ regional offices in the territories of Mainland China have upgraded as branches successively, or some have established new offices or entered into memorandum with Mainland China financial organizations for the cooperation in terms of funding, loaning, trade financing and investment, in order to seek profit in Mainland China. Due to the restrictions rendered by laws and regulations, the Bank cannot Go West for the time being and, therefore, will adopt the policy to develop local industries thoroughly.

2. Regulatory environment

   A. In order to establish the well-founded corporate governance, the Bank established the “Remuneration Committee” on December 29, 2011.

   B. In order to deal with the enforcement of the “Banking Consumer Protection Act” and related laws, the Bank has reviewed, added and revised the Bank’s forms, contracts, operating procedures and rules to protect customer rights.

   C. In order to comply with the competent authority’s plan to deliver the “IFRS” in 2013, the Bank continues to carry out the relevant switch plan.

   D. The Central Bank of China is planning a cross-strait monetary settlement. If Taiwan becomes an official offshore RMB finance, it will help the Bank process such RMB businesses as deposits, foreign exchange and underwriting of bonds, to earn more profit.

3. Macroeconomic environment

   In 2012, it appears that the European Debt Crisis still remains unresolved and the economy recovers slowly in the U.S.A. Besides, the economic growth is also slow in Mainland China. Therefore, the global economic recovery remains uncertain. Domestically, the Central Bank of China called a directors’/supervisors’ meeting at the end of Q1, which decided that the suspension of interest rate raise should be maintained. According to Taiwan Ratings, prior to the global economic recovery, the loans granted by the banking business to SMEs, steel industry, metal industry and high-tech industry, etc., might fluctuate drastically due to changes in the entire environment. Therefore, profit of banking industry is expected to be conservative. Meanwhile, whether the European Sovereign Debt Crisis may be resolved that relied on the EU members’ negotiation. The Chairman of Fed Reserve announced that QE3 might be implemented in hopes of boosting economy, stimulating the labor market and reducing the unemployment rate.

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

On Dec. 13, 2011, Taiwan Ratings Corp. announced that the Bank’s long-term credit rating in 2011 was “twBBB+”, and short-term credit rating “twA-2”. The outlook was rated as “stable”.

Finally, thank you for all of your support to the Bank. The Bank look forward to your continuous instructions and support to help the Bank’s business develop on an on-going basis. At last, the Bank sincere wishes to all shareholders. Wishing you health, prosperity, and happiness!

Sincerely yours,

Hsian chung Tsai

Chairman

Chen

President