6.4 Financial Report for FY 2012

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Report of Independent Auditors

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

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

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

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

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

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

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

Tsai Shu Man

CPA：Ling-Wen Huang

HUANG LING WEN

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

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

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

Unit：NT$ Thousand

ASSETS			2012.12.31	2011.12.31	Comparson
A/C No	Account	Note	Amount	Amount	(%)
11000	Cash & cash equivalents	4.1	$ 3,166,781	$ 2,840,102	11.50
11500	Due from CBC and lend to banks	4.2	24,635,414	24,134,482	2.08
12000	Financial assets at fair value through income statement	4.3	1,459,442	1,615,849	(9.68)
12500	Bills and bonds purchased under resale agreements		4,967,234	5,787,341	(15.50)
13000	Accounts receivable－net	4.4	973,436	981,170	(0.79)
13500	Discounts & loans－net	4.5	162,044,345	166,215,870	(2.51)
14000	Available-for-sale financial assets－net	4.6	19,137,095	11,748,424	62.89
14500	Held-to-maturity financial assets －net	4.7	－	5,566,536	(100.00)
15000	Equity method's investments－net	4.8	79,062	62, 936	25.62
15500	Other financial assets－net	4.9	1,724,348	1,830,973	(5.82)
	Property and equipment cost				
18501	Land		$ 1,224,286	$ 1,231,286	(0.57)
18521	Buildings		1,218,188	1,239,159	(1.69)
18531	Machinery & equipment		621,583	622,593	(0.16)
18541	Transportation equipment		24,558	22,835	7.54
18551	Miscellaneous equipment		92,049	95,488	(3.60)
18561	Leasehold improvement		232,563	232,563	－
185x1	Total cost		$ 3,413,227	$ 3,443,924	(0.89)
185x4	Less：accumulated depreciation		(1,277,998)	(1,241,478)	2.94
18500	Property and equipment cost –net	4.10	$ 2,135,229	$ 2,202,446	(3.05)
19000	Intangible assets		$ 50,100	$ 62,565	(19.92)
19500	Other assets	4.11	748,418	769,027	(2.68)
10000	Total assets		$ 221,120,904	$ 223,908,721	(1.25)

LIABILITIES & STOCKHOLDERS' EQUITY			2012.12.31	2011.12.31	Comparson
A/C No	Account	Note	Amount	Amount	(%)
21000	Due to CBC & banks		$ 11,935,679	$ 11,511,596	3.68
22000	Financial liabilities at fair value through income statement	4.3	613	3,837	(84.02)
22500	Bills and bonds sold under repurchase agreements		68,914	103,207	(33.23)
23000	Accounts payable	4.12	3,955,574	3,379,348	17.05
23500	Deposits & remittances	4.13	189,552,300	193,944,262	(2.26)
24000	Financial bonds payable	4.14	4,000,000	4,000,000	－
25000	Pension payable	4.15	353,864	304,726	16.13
25500	Other financial liabilities	4.16	152,116	195,150	(22.05)
29500	Other liabilities	4.17	195,659	103,363	89.29
20000	Total liabilities		$ 210,214,719	$ 213,545,489	(1.56)
	Stockholders' equity				
31001	Capital	4.18	$ 7,069,476	$ 7,069,476	－
31500	Capital surplus	4.19	2,017,724	2,017,724	－
	Retained earnings				
32001	Legal reserve		$ 1,277,895	$ 1,642,841	(22.21)
32003	Special reserve		－	41,937	(100.00)
32011	Unappropriated earnings	4.20	386,202	(406,883)	194.92
32000	Total retained earnings		$ 1,664,097	$ 1,277,895	30.22
	Other stockholders' equity				
32523	on unrealized income on available-for-sale financial assets		$ 154,401	($2,384)	6,576.55
32599	Other adjustment on stockholder's equity		487	521	(6.53)
32500	Total other stockholders' equity		$ 154,888	($1,863)	8,413.90
30000	Total stockholders' equity		$ 10,906,185	$ 10,363,232	5.24
	Total liabilities & stockholders' equity		$ 221,120,904	$ 223,908,721	(1.25)

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

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

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

Unit：NT$ Thousand

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

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

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

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

Unit：NT$ Thousand

Item	Common Stock	Capital Surplus	Retained Earnings				Adjustments on Equity			Sum
			Legal Reserve	Special Reserve	Unappropriated Earnings	Sum	Unrealized income on financial products	Other	Sum	
Balance, January 1, 2011	$ 5,257,982	$ 2,542,403	$ 1,604,713	$ 25,034	$ 155,551	$ 1,785,298	($ 25,787)	($ 824)	($ 26,611)	$ 9,559,072
Capital increase by capital reserve	525,798	(525,798)	—	—	—	—	—	—	—	—
Employees' stock bonus	6,826	1,119	—	—	—	—	—	—	—	7,945
Net income (loss)	—	—	—	—	(433,343)	(433,343)	—	—	—	(433,343)
Appropriation & distribution of earnings (Note1)										
Legal reserve	—	—	38,128	—	(38,128)	—	—	—	—	—
Special reserve	—	—	—	1,577	(1,577)	—	—	—	—	—
Cash dividend	—	—	—	—	(10,516)	(10,516)	—	—	—	(10,516)
Capital increase by earnings	78,870	—	—	—	(78,870)	(78,870)	—	—	—	—
Capital increase by cash	1,200,000	—	—	—	—	—	—	—	—	1,200,000
Increase (Decrease) on unrealized income on available-for-sale financial assets	—	—	—	—	—	—	23,403	—	23,403	23,403
Other(Sub Note 10 and 20)	—	—	—	15,326	—	15,326	—	1,345	1,345	16,671
Total on change	$1,811,494	($ 524,679)	$38,128	$16,903	($562,434)	($507,403)	$23,403	$1,345	$24,748	$804,160
Balance, December 31, 2011	$7,069,476	$2,017,724	$1,642,841	$41,937	($406,883)	$1,277,895	($2,384)	$521	($1,863)	$10,363,232
Net income (loss)	—	—	—	—	386,202	386,202	—	—	—	386,202
Appropriation & distribution of earnings (Note2)										
Legal reserve be used to offset a deficit	—	—	(364,946)	—	364,946	—	—	—	—	—
Special reserve be used to offset a deficit	—	—	—	(41,937)	41,937	—	—	—	—	—
Increase (Decrease) on unrealized income on available-for-sale financial assets	—	—	—	—	—	—	156,785	—	156,785	156,785
Other(Sub Note 10 and 20)	—	—	—	—	—	—	—	(34)	(34)	(34)
Total on change	$ —	$ —	($364,946)	($41,937)	$793,085	$386,202	$156,785	($34)	$156,751	$542,953
Balance, December 31, 2012	$7,069,476	$2,017,724	$1,277,895	$ —	$386,202	$1,664,097	$154,401	$487	$154,888	$10,906,185

Note1：The amount of both Directors & supervisors' remunerations and Employees' bonus were2,000 thousand and 8,000 thousand respectively.
Note2：The amount of both Directors & supervisors' remunerations and Employees' bonus were zero.

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

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

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

Unit：NT$ Thousand

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

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

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

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

(Expressed in New Taiwan Thousand Dollars Unless Stated Otherwise)

1. HISTORY AND ORGANIZATION

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

A. Agent for the Kaohsiung City Treasury.

B. Management of Kaohsiung Municipal Bond.

C. Other relevant commercial bank businesses authorized under the Banking Law.

D. Savings and trust operations.

E. Other relevant businesses authorized by the Central Competent Authority.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

2.1 Basis of Financial Statements

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

2.2 Foreign Currency transaction

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

2.3 Financial Products at Fair Value through Income Statement

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

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

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

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

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

2.4 Bills and Bonds Sold under Agreements

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

2.5 Overdue Accounts

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

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

2.6 Provision for Credit Loss & Reserve for Guarantee

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

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

(1) There are obvious financial problems confronting the debtor; or

(2) Overdue discount and loans and receivable accounts; or

(3) The debtor is likely to wind up, or proceed with financial reorganization.

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

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

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

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

2.7 Available-for-sale Financial Assets

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

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

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

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

2.8 Held-to-Maturity Financial Assets

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

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

2.9 Long-Term Investments in Equity Method

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

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

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

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

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

2.10 Other Financial Assets

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

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

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

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

2.11 Property and Equipment Cost

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

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

2.12 Deferred Expenses

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

2.13 Intangible Assets

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

2.14 Pension Plan

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

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

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

2.15 Reserve for Transaction Loss

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

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

2.16 Employee Bonus and Remuneration to Directors/Supervisors

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

2.17 Recognition of Interest Income and Service Fees

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

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

2.18 Income Tax

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

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

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

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

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

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

2.19 Asset Impairment

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

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

2.20 Operation Departments

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

3. REASONS AND IMPACTS OF ACCOUNTING PRINCIPLE CHANGES

3.1 Accounting for financial instruments:

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

3.2 Disclosure of information by operation department:

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

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

4.EXPLANATION ON IMPORTANT ACCOUNTS

4.1 CASH & CASH EQUIVALENTS

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

4.2 DUE FROM CBC AND LEND TO BANKS

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

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

(2)For the guarantees towards the CBC certificate of deposit as mentioned above, please see Note 6.

4.3 FINANCIAL PRODUCTS AT FAIR VALUE THROUGH INCOME STATEMENT

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

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

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

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

(2) Until Dec. 31, 2012 and Dec. 31, 2011, the maturity dates of bonds possessed by the Bank range from 2018 to 2021 and 2019 to 2021. The average interest rates thereof are specified in Note 10.(2).

(3) Gain on financial assets and liabilities at fair value through income statement in FY2012 and 2011 which was realized net income was minus $16,247 thousand and $ 119,793 thousand. The evaluated income thereof was $ 3,536 thousand and minus $ 1,088 thousand.

(4) For the guarantees towards financial assets as mentioned above, please see Note 6.