4.4 ACCOUNTS RECEIVABLE- NET

Item	2012.12.31	2011.12.31
Credit card fees receivable	$198,278	$189,386
Income receivable	150,507	132,379
Acceptances receivable	150,811	124,776
Interest receivable	410,205	356,666
Income tax refundable- Previous period	13,258	22,487
Income tax refundable- Current period	17,475	10,870
Accounts receivable from credit card issue bank	11,033	12,111
Factoring Receivables	—	138,040
Other receivable	65,210	9,131
Sub-total	$1,016,777	$995,846
Less:provision for credit loss	(43,341)	(14,676)
Net	$973,436	$981,170

4.5 DISCOUNTS AND LOANS - NET

Item	2012.12.31	2011.12.31
Bills purchased & discounts	$78,272	$75,527
Short-term loan & overdrafts	54,339,506	58,200,570
Short-term secured loan & overdrafts	12,774,407	13,164,629
Medium-term loans	19,065,295	19,761,881
Medium-term secured loans	22,432,612	24,524,823
Long-term loans	13,829,419	12,490,735
Long-term secured loans	39,747,546	38,370,150
Overdue loans	1,129,862	1,311,407
Sub-total	$163,396,919	$167,899,722
Less：provision for credit loss	(1,352,574)	(1,683,852)
Net	$162,044,345	$166,215,870

Loans and other credit advances which the bank has ceased to charge interest as at Dec. 31, 2012 and Dec. 31, 2011 was ＄1,180,572 thousand and $1,361,491 thousand respectively. Interest income that was not included in FY2012 and 2011 was＄17,541 thousand and $47,693 thousand respectively.

(1)Statement of changes in provisions for bad debts

In accordance with FSC Jin-Guan-Ying-Fa Directive No. 0991007640, effective December 31, 2010, the Bank shall also disclose the following as of January 1, 2011:

A.The changes in the provision for accounts receivable loss are as follows:

Item	2012.1.1－2012.12.31	2011.1.1－2011.12.31
Balance, January 1, 2012, 2011	$14,676	$3,243
Provisions	28,492	6,580
Reserve for renege loss are reclassified as	909	4,918
Bad debt for resale	(505)	(52)
Foreign exchange and other changes	(86)	—
Increase(loss) in reclassification	(145)	(13)
Balance, December 31, 2012, 2011	$43,341	$14,676

B.The changes in the provision for discounts and credit loss are as follows:

Item	2012.1.1－2012.12.31	2011.1.1－2011.12.31
Balance, January 1, 2012, 2011	$1,683,852	$859,778
Provisions	516,064	889,944
Translation of reserve for guarantee liability	—	13,817
Bad debt for resale	(837,942)	(85,899)
Foreign exchange and other changes	(9,400)	6,212
Increase(loss) in reclassification	—	—
Balance, December 31, 2012, 2011	$1,352,574	$1,683,852

C. The changes in the provision for overdue accounts from Short-tem advance, Bill purchased, and non-loans are as follows:

Item	2012.1.1－2012.12.31	2011.1.1－2011.12.31
Balance, January 1, 2012, 2011	$20,061	$17,809
Provisions	19,807	2,266
Bad debt for resale	(28,493)	(27)
Foreign exchange and other changes	—	—
Increase(loss) in reclassification	145	13
Balance, December 31, 2012, 2011	$11,520	$20,061

a. In 2012, bad debts were recognized at NT$579,363 thousand provisions for bad debts were recognized at NT$564,363 thousand and provisions for guarantee liability were recognized at NT$15 million.
b. In 2011, bad debts were recognized at NT$898,790 thousand provisions for bad debts were recognized at NT$898,790 thousand.

(2)Statement of changes in provisions for bad debts

A. Provision for bad debts of receivables evaluation sheet:

2012.12.31

Item	accounts receivable	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	$64,831	$29,839
— Evaluation on consolidated impairment	5,291	4,748
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	946,655	8,754
Total	$1,016,777	$43,341

2011.12.31

Item	accounts receivable	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	$5,490	$4,533
— Evaluation on consolidated impairment	8,812	2,632
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	981,544	7,511
Total	$995,846	$14,676

B. Table for the estimates of provision for discounts and credit loss.：

2012.12.31

Item	Total Loan	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	$1,164,329	$404,287
— Evaluation on consolidated impairment	1,173,324	272,311
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	161,059,266	675,976
Total	$163,396,919	$1,352,574

2011.12.31

Item	Total Loan	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	$1,829,826	$542,222
— Evaluation on consolidated impairment	1,128,719	317,937
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	164,941,177	823,693
Total	$167,899,722	$1,683,852

C. Table for the estimates of provision for overdue accounts from Short-tem advance, Bill purchased, and non-loans:

2012.12.31

Item	Total Loan	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	$ 17,373	$ 6,000
— Evaluation on consolidated impairment	32,040	5,520
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	1,297	—
Total I	$ 50,710	$ 11,520

2011.12.31

Item	Total Loan	Allowance for bad debt
Objective evidence of individual impairment		
— Evaluation on individual impairment	$ —	$ —
— Evaluation on consolidated impairment	47,218	20,061
Absence of objective evidence of individual impairment		
— Evaluation on consolidated impairment	2,866	—
Total	$ 50,084	$ 20,061

4.6 AVAILABLE-FOR-SALE FINANCIAL ASSETS - NET.

Item	2012.12.31	2011.12.31
Central government bonds	$447,721	$229,232
Other government bonds	2,807,440	387,032
Corporate bonds	669,536	499,795
Stocks	86,317	55,504
Profits the certificate	125,835	13,144
CBC Negotiable certificate of deposit	9,200,000	7,050,000
Overseas bonds	5,615,845	3,516,101
Sub-total	18,982,694	11,750,808
Valuation adjustment	154,401	(2,384)
Total	$19,137,095	$11,748,424

(1) Until Dec. 31, 2012 and 2011, the maturity dates of said financial assets held by the Bank range from 2013 to 2031, and from 2012 to 2023, please refer to Note 10.2 for the average interest rate.
(2) Until Dec.31, 2012 and 2011, the book value of transactions under re-purchase agreement of the said financial assets was $59,900 thouasnd and $88,900 thousand.
(3) For the guarantees towards financial assets as mentioned above, please see Note 6.

4.7 HELD-TO-MATURITY FINANCIAL ASSETS - NET

Item	2012.12.31	2011.12.31
Central government bonds	—	259,146
Other government bonds	—	2,283,507
Corporate bonds	—	299,529
Overseas bonds	—	2,724,354
Total	—	$5,566,536

(1) Until Dec. 31, 2011 the maturity dates of the said financial assets possessed by the Bank range from 2012 to 2031, please refer to Note 10.2 for the average interest rate.
(2) For the guarantees towards financial assets as mentioned above, please see Note 6.
(3) In accordance with CBC Tai-Yang-Yeh-Zi No. 1000034507 dated July 19, 2011, as of Oct. 1, 2011, the minimum rate of current assets and liabilities to be provided by financial organizations shall be increased from 7% to 10% as of October 2011, and “on a monthly basis” instead of “on a daily basis”. Therefore, according to the Statement of Financial Accounting Standards No. 34, the proceeds from held-to-maturity financial assets sold earlier due to the amendments to the competent authority’s laws and regulations was NT$1,704,575 thousand, and the relevant gain from the disposal, NT$80,275 thousand, was recognized in 2011.
(4) In consideration of enhancing the flexibility of the use of assets, the Board resolved in Aug. 2012 to recognize all assets held to maturity amounting to NT$5,631,013 under the title of financial assets available for sales.

4.8 EQUITY METHOD'S INVESTMENTS

2012.12.31

Name	Shareholding (Thousand Shares)	Book Value	Shareholding (%)
Kaohsiung Bank Insurance Agency Co., Ltd.	300	$71,448	100.00%
Kaohsiung Bank General Insurance Agency Co., Ltd.	500	7,614	100.00%
Total		$79,062	

2011.12.31

Name	Shareholding (Thousand Shares)	Book Value	Shareholding (%)
Kaohsiung Bank Insurance Agency Co., Ltd.	300	$55,553	100.00%
Kaohsiung Bank General Insurance Agency Co., Ltd.	500	7,383	100.00%
Total		$62,936	

(1) Long-term equity investments and return(loss) on investments recognized under the equity method on the basis of the financial statements of the investees covering the same fiscal period are shown below:

FY 2012

Item	Long-term equity investments	return(loss) on investments
audits by the CPAs' engaged with the Bank.	$79,062	$49,808
Total	$79,062	$49,808

FY 2011

Item	Long-term equity investments	return(loss) on investments
audits by the CPAs' engaged with the Bank.	$55,553	$35,955
No audit by CPAs is required	7,383	1,474
Total	$62,936	$37,429

(2) According to the amended SFAS No. 7 (Consolidated Financial Statements) and the requirements of Financial Supervisory Commission through notices, the Company shall incorporate investees where it has dominant control into the consolidated financial statements.

4.9 OTHER FINANCIAL ASSETS - NET

Item	2012.12.31	2011.12.31
Financial assets－cost method	$1,287,577	$ 1,287,577
Less：Accumulated impirment	(25,000)	—
Bond investment without market price	559,567	2,026,789
Less：Accumulated impirment	(136,983)	(1,513,416)
Short-tem advance	22,221	20,016
Overdue accounts from non-loans	28,489	30,068
Provision for credit loss－overdue accounts from non-loans	(11,520)	(20,061)
Total	$1,724,348	$1,830,973

(1) Certain financial assets held by the Bank were evaluated based on cost, because there was no market price for reference and it was impossible to measure the fair value. The Bank has recognized loss for accumulated impairment as of Dec.31, 2012 and 2011were $25 million and $0, respective.

(2) The bond investment without the open quotation of active market with fixed or determined collectable amount as held by the Bank is evaluated based on the cost upon amortization; however, because of the subprime mortgage in the U.S., the accumulated impairment loss on the other bonds recognized as of December 31, 2012 and 2011 was $136,983 thousand and $1,513,416 thousand.

(3)The impairment losses recognized on assets mentioned above are as follows:

Item	2012.1.1-2012.12.31	2011.1.1-2011.12.31
Recognized impairment loss on financial assets valued at cost	$25,000	$ —
Recognized impairment loss on investment in bonds without an active market	70,029	418,200
Total	$95,029	$418,200

4.10 PROPERTY AND EQUIPMENT COST - NET

(1) The detail of property and equipment cost at 2012.12.31

Item	Cost	Accumulated Deprections	Book Value
Land	$1,224,286	$ —	$1,224,286
Buildings	1,218,188	383,188	835,000
Machinery and equipment	621,583	564,260	57,323
Transportation equipment	24,558	20,016	4,542
Miscellaneous equipment	92,049	83,062	8,987
Leasehold improvement	232,563	227,472	5,091
Total	$3,413,227	$1,277,998	$2,135,229

(2) The detail of property and equipment cost at 2011.12.31

Item	Cost	Accumulated Deprections	Book Value
Land	$1,231,286	$ —	$1,231,286
Buildings	1,239,159	369,264	869,895
Machinery and equipment	622,593	546,961	75,632
Transportation equipment	22,835	20,036	2,799
Miscellaneous equipment	95,488	85,234	10,254
Leasehold improvement	232,563	219,983	12,580
Total	$3,443,924	$1,241,478	$2,202,446

(3) Insurance coverage for the Bank's fixed assets as of December 31, 2012 and 2011 were $1,935,651 thousand and $1,972,146 thousand, respectively.

(4) The Bank's fixed assets have not been appraised as of December 31, 2012 and 2011.

(5) No collateral has been assumed on the Bank's fixed assets as of December 31, 2012 and December 31, 2011.

4.11 OTHER ASSETS

Item	2012.12.31	2011.12.31
Refundable deposits	$24,595	$23,839
Deferred expenses	5,633	8,030
Non-operating assets－land	807,607	807,607
Less：Accumulated impairment	(190,198)	(190,198)
Deferred income tax assets	75,672	94,960
Other	25,109	24,789
Total	$748,418	$769,027

(1) Refer to Note 4.23 for descriptions of deferred income tax assets.

(2) The said non-operational asset – land was the governmental land acquired by the Bank prior to privatization of the Bank, which was scheduled to be occupied by the Bank's branch. However, after privatization, the Bank is not a governmental authority any longer. Due to the zoning restrictions, the Bank has petitioned with Kaohsiung City Government in writing for alteration of the land registration. After the registration of alteration is completed, the branch will be built on the land according to the original plan.

4.12 ACCOUNTS PAYABLES

Item	2012.12.31	2011.12.31
Accounts receivable from credit card issue bank	$10,162	$11,962
Accrued expenses	147,268	152,066
Interest payable	375,780	392,520
Payable for employees' bonus & remunerations to directors and supervisors	23,560	－
Income tax payable	1,112	1,112
Acceptance bills	150,811	124,776
Collections for customers	37,558	40,397
Checks for clearance	1,447,863	1,172,360
Income tax on interest withheld	4,647	4,816
Payroll transfers payable	1,406,255	1,221,593
Unpaid proceeds from bills collected	21,702	52,607
Compensation payable for the settlement of disputes over underwritten investments	－	828
Payables for factoring	－	13,804
Other payables	328,856	190,507
Total	$3,955,574	$3,379,348

Refer to Note 7.3 for descriptions of Compensation payable for the settlement of disputes over underwritten investments.

4.13 DEPOSITS AND REMITTANCES

Item	2012.12.31	2011.12.31
Checking deposits	$2,420,670	$3,382,844
Treasury deposits	11,905,378	10,815,120
Demand deposits	19,118,312	18,383,538
Demand savings deposits	44,756,545	43,517,559
Time savings deposits	53,191,843	48,251,659
Time deposits	55,761,621	63,906,935
Negotiable certificate of deposits	2,394,600	5,685,900
Remittances & drafts issued	3,331	707
Total	$189,552,300	$193,944,262

4.14 FINANCIAL BONDS PAYABLE

Item	Term / Interest rate	2012.12.31	2011.12.31
Subordinate financial bond, first issue 2007	2007.06.12－2014.06.12 1.279%－1.294%	$1,000,000	$1,000,000
Subordinate financial bond, first issue 2009	2009.01.20－2016.01.20 3.4%	3,000,000	3,000,000
Total		$4,000,000	$4,000,000

4.15 PENSION PLAN

(1) The Bank started to make contributions to a pension fund upon its privatization on September 27, 1999 in accordance with the Labor Standards Law, which is deposited with the Bank of Taiwan. Information on the pension plan is as follows:

Item	2012.1.1－2012.12.31	2011.1.1－2011.12.31
Balance, January 1, 2012，2011	$530,703	$483,541
Add：Provisions	49,274	48,554
Interest revenue	5,342	5,950
Less：Payment	(16,473)	(7,342)
Balance, Dec. 31.	$568,846	$530,703

(2) Defined Benefit Pension Plan

A. The funded status of the pension plan is as follows :

Item	2012.12.31	2011.12.31
Benefit obligation		
Vested benefit obligation	($643,823)	($523,639)
Non-vested benefit obligation	(277,728)	(311,790)
Accumulated benefit obligation	($921,551)	($835,429)
Projected increase in salary effect	(275,130)	(263,458)
Projected benefit obligation	($1,196,681)	($1,098,887)
Funded status		
Fair value of plan assets	568,846	530,703
Funded status of pension plan	($627,835)	($568,184)
Unrecognized transition obligation （net assets）	—	—
Unrecognized loss (gain)	273,971	263,458
Pension payable	—	—
Accrued pension payable / prepaid pension fund at the end of the period	($353,864)	($304,726)

B. The components of net periodic pension costs are as follows

Item	2012.1.1－2012.12.31	2011.1.1－2011.12.31
a. Service costs	$87,532	$81,218
b. Interest costs	26,831	25,896
c. Expected return on plan assets	(13,517)	(13,958)
d. Amortization of unrecognized transition obligation (net assets)	—	—
e. Amortization of unrecognized service costs for the previous period	—	—
f. Amortization of unrecognized gain or loss	9,598	6,924
g. Net periodic pension costs = a+b+c+d+e+f	$110,444	$100,080
C. Vested benefit	$730,027	$591,962

D. Actuarial assumptions used to calculate net periodic pension costs are as follows:

Item	2012.12.31	2011.12.31
a. Discount rate of projected benefit obligation	2.45% each year	2.45% each year
b. Rate of increase in salaries	2.00% each year	2.00% each year
c. Projected long-term rate of return on pension assets	2.45% each year	2.45% each year

(3)“Labor Pension Act” was enforced as of July 1, 2005, which is the confirmed rules governing contribution of retirement pension. Laborers may choose to continue applying the retirement provisions referred to in the “Labor Standards Act”, or apply the retirement system referred to in the said Act and retain the seniority applicable to the said Act. According to the said Act, the percentage of the labor pension to be contributed by the employer on a monthly basis should not be less than 6% of the laborers’ monthly salary. The retirement pension contributed by the company in accordance with the said Act in 2012 and 2011 was $12,194 thousand and $10,801 thousand, respectively. The retirement pension, $110,444 thousand and $100,080thousand, was recognized according to Statement of Financial Accounting Standards No.18 entitled “Accounting for Pensions”. The extra payment for preferential severance pay and pension in 2012 and 2011 was $3,932 thousand and $8,065 thousand respectively.

4.16 OTHER FINANCIAL LIABILITIES

Item	2012.12.31	2011.12.31
Appropriated loan funds	$19,500	$30,907
Appropriated loans	132,616	164,243
Total	$152,116	$195,150

Appropriated loan funds mentioned above refer to the various special syndicated loans orgnaized by the Bank, Small and Medium Enterprise Development Fund, the National Youth Commission of the Executive Yuan and the Development Fund of the Executive Yuan. The collected funds entrusted to the Bank from the respective committees to fund special project loans.

4.17 OTHER LIABILITIES

Item	2012.12.31	2011.12.31
Reserve for losses on guarantees	$15,000	$ —
Guarantee deposit received	39,813	38,842
Pre-receives	114,252	63,243
Other	26,594	1,278
Total	$195,659	$103,363

(1)The provisions for guarantee liability deriving from overdue accounts for collection due to bank guarantee operation in 2012 and 2011 were recognized as discount and loans-provisions for bad debts amounting to NT$0 and NT$13.817 million, respectively.

(2)The Bank has recognized reserve for losses on guarantees as of Dec.31, 2012 and 2011 were $15 million and $0, respective.

(3)The provision for default loss-credit cards deriving from the default of credit card acquirer bank services in 2012 and 2011 was recognized as receivables-provision for bad debts amounting to NT$909,000 and NT$4.918 million, respectively.

(4)In accordance with FSC Jin-Guan-Zheng-Quan Directive No. 0990073857, effective Jan.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”, NT$15,326 thousand, 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. When the reserve reaches 50% of the Bank’s paid-in capital, it can only be transferred to capital stock as legal reserve.

4.18 CAPITAL

Item	2012.12.31	2011.12.31
Authorized capital	$ 15,000,000	$ 15,000,000
Paid-in capital	7,069,476	7,069,476
Common stocks issued (thousand shares)	706,948	706,948
Par value	10	10

4.19 CAPITAL SURPLUS

According to the Company Law, capital surplus arising from issuance of shares in excess of par value and donation capital surplus may be used to offset a deficit and, when the company has no accumulated loss, may be transferred to new shares or cash on the basis of the Ratio of Shareholding of shares held by the stockholders. According to the relevant requirements provided under Securities and Exchange Act, said capital surplus may be transferred to common stock up to an annual limit of 10% of the paid-in capital. Unless the earnings cannot afford to offset the capital loss, the company shall not offset the loss with the capital surplus.

4.20 RETAINED EARNINGS

(1)According to the company’s articles of incorporation, if there are any retained earnings upon the bank’s final account at the end of the year, they will be used to make up the loss of previous years upon payment of all payable taxes purauant to laws, and 30% of the remainder will be contributed as the legal reserve. Meanwhile, a special reserve should be provided or reversed pursuant to laws and subject to the needs of the business. The balance and the unallocated accumulated earnings for the previous years, which are identified as the allocable earnings, should be distributed in the following manner: (A) 2% for compensation of directors and supervisors; (B) 8% for employees’ bonus; (C) 90% for shareholders’ dividends. The shareholders’ meeting may retain the earnings in part or in whole subject to the future need for business and profitability. The distribution of shareholders’ dividends may be made subject to the resolution of the shareholders’ meeting with respect to the proposal submitted by the board of directors for distribution and adjustment of the percentage of cash dividend and stock dividend, provided that the cash dividend should not be less than 5% of the stock dividend offered in the current year. Before the legal reserve amounts to the gross capital, or the capital adequacy ratio meets the requirements under the Banking Law, the maximum distribution of cash earnings should be subject to the Banking Law and the competent authority’s requirements.

(2) Legal reserve may only be used to offset the company’s loss and transferred to new shares or cash on the basis of the Ratio of Shareholding of shares held by the stockholders, provided that the reserve transferred to new shares or cash shall be no more than 25% of the paid-in capital.

(3) According to Article 41 of the Securities and Exchange Act, earnings of the Bank, if there are any, shall be subject to withholding for mandatory reserve. In addition, the book value of the adjustment of shareholders' equity in current period (e.g., unrealized gain/loss of financial products, accumulated adjustment of conversion) shall be deducted from the corporate earnings of current period as special reserve. Such amount shall be equivalent to the special reserve deducted from the retained earnings of the previous period, and shall not be paid out as earnings. The portion of reversal of the adjustment of shareholders' equity, if applicable, can be subject to distribution as earnings.

(4)The FY 2011 and 2010 retained earnings were appropriated as follows in accordance with the shareholders' meeting held in Jun. 2012 and 2011 respectively.

Item	Retained Earnings		Dividend per stock (NT$)	
	FY2011	FY2010	FY2011	FY2010
Legal reserve	$ —	$38,128		
Special reserve	—	1,577		
Cash dividend of common stock	—	10,516	—	0.02
Stock dividend of common stock	—	78,870	—	0.15
Total	$ —	$129,091		

The operation in 2011 resulted in loss, and no bonus for shareholders and employees and remuneration to directors and supervisors were allocated. The General Meeting of shareholders also resolved on June 21, 2012 to allocate special reserve amounted to NT$41.937 million and mandatory reserves amounted to NT$364.946 million to offset the loss carried forward. For details of the minutes of the meeting on resolution of the shareholders to offset the loss, visit MOPS at the official website of TWSE.

(5)The General Meeting of shareholders resolved to allocate NT$0 as employee bonus and remuneration to directors and shareholders in 2012. It is identical with the resolution of the General Meeting of shareholders in 2011 that NT$0 was allocated as employee bonuses and remuneration to shareholders.

(6)The Company assessed the employee bonus and remuneration to directors and supervisors in accordance with the Articles of Incorporation and with reference to the average of the percentage resolved by the General Meeting of shareholders in previous year for the allocation of employee bonus and remunerations to directors and supervisors. In 2012, employee bonuses were estimated at NT$18.85 million and remuneration to directors and supervisors were estimated at NT$4.71 million. Operation resulted in loss in 2011, employee bonuses and remuneration to directors and supervisors were estimated at NT$0. If there is a difference between the actual amount resolved by the General Meeting for payout and the estimated amount, it shall be recognized as change in accounting estimation, and shall be booked in the year of the resolution of General Meeting.

(7)As of Mar. 28, 2013, no motion on the distribution of earnings and earnings per share in 2012 has ever been proposed in the sessions of the Board.

4.21 NET COMMISSION AND SERVICE FEES

Item	2012.1.1-2012.12.31	2011.1.1-2011.12.31
Income on commission & service fees	$394,384	$399,994
Expenses on commission & service fees	(38,767)	(40,545)
Total	$355,619	$359,449